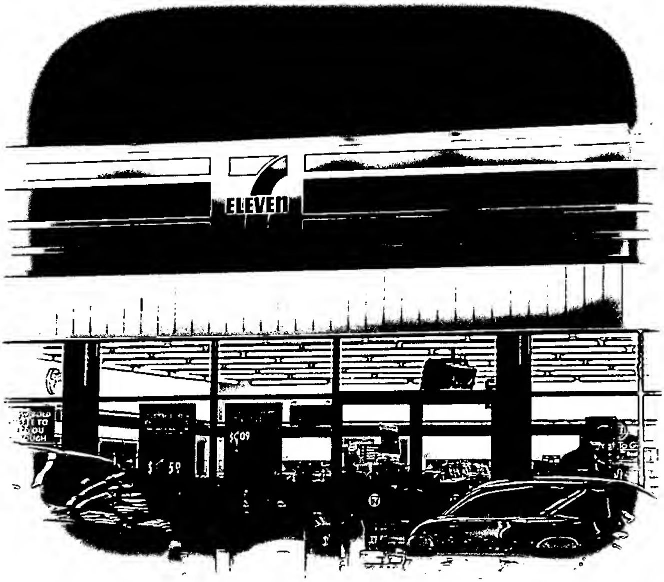
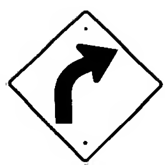
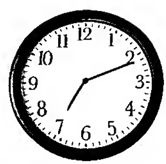
7-Eleven 2000 Annual Report



7-Eleven is convenience.

Around the globe. Around the corner. Around the clock.

COFFEE FLAVOR. NEW DARK MOUN
24 Hour
ATM
safe and convenient
STAY WARM FOR LESS.
$1.09
CAFE SELECT
PICK UP A 24 OZ. BIG BREW.
PULL
99¢


Fresh To Go
Fast To Go
Prepaid Gift Card
Tostitos
Ruffles

7-Eleven is Convenience ... Yesterday, Today and Tomorrow

The story of 7-Eleven has never been conventional. In 1927, an enterprising employee of the Southland Ice Company, located in a small suburb of Dallas, heard many of his customers say their lives would be easier if they could pick up a few basics — milk, bread and eggs — from the ice dock. He responded by suggesting that the company test the feasibility of selling those items as a convenience to busy customers on evenings and weekends, when other retailers were closed. That inventive response to consumer demand did not just expand a company ... it pioneered the convenience industry which 7-Eleven leads today as the largest operator, franchiser and licensor.

The neighborhood changed ... lifestyles changed. And time and again 7-Eleven responded, providing products and services to meet and exceed its customers' needs. Through 73 years of innovation and growth, 7-Eleven has reinvented and continues to redefine the industry it founded.

Today, the neighborhood is global and consumers' fast-paced lifestyles make every second precious. Never has convenience been so important to customers ... and once again 7-Eleven is prepared. With an internationally recognized brand and worldwide presence, the company offers an unparalleled product selection, supported by an infrastructure that anticipates and responds to the changing needs of customers. And investment in technology ensures 7-Eleven is not just the convenience leader of today, but of tomorrow as well.

With innovation, strategic focus and an unwavering commitment to customer service, the company approaches the future poised for growth yet again. Around the globe, around the corner, around the clock ... 7-Eleven is on the move.

The strength of a global

In 2000, 7-Eleven crossed the 20,000-store threshold, ending the year with more than 21,000 stores. Yet our strength is not just in impressive numbers, but in using those numbers to maximize efficiencies, develop new products and services, and satisfy our customers.

Merchandising

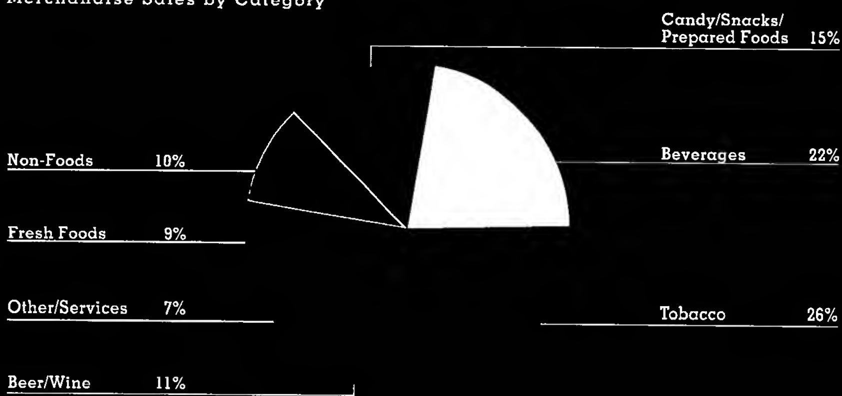
Merchandising is the cornerstone of 7-Eleven's commitment to increasing sales and becoming a leading retailer. Convenience requires responding to continual changes and our challenge is to anticipate these changes, constantly redefining convenience. The approach begins with an understanding of the customer, both existing and potential, and results in our ability to reach out to a broader demographic mix.

Effective merchandising also includes proper timing of product display and removal, strategic display techniques and careful evaluation of cultural trends and consumer buying patterns.

Gasoline

Gasoline represents more than a quarter of total sales at 7-Eleven. Despite volatility in gas prices, our favorable supply arrangement with Citgo Petroleum allows us to continue to provide our customers with competitively priced gasoline, as well as the 24-hour availability and pay-at-the-pump convenience they appreciate. In 2000, 7-Eleven sold more than 1.8 billion gallons of gas.

Merchandise Sales by Category

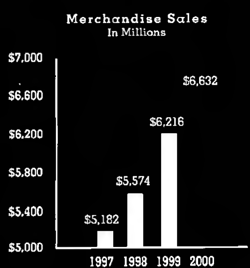


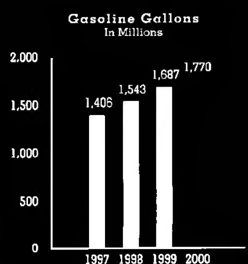
brand

Financial Highlights

(Dollars in Millions, Except Earnings Per Share Data)	Years Ended December 31 1997	1998	1999	2000
Merchandise Sales	$5,181.8	$5,573.6	$6,216.1	**$6,632.2**
Gasoline Sales	1,789.4	1,684.2	2,035.6	**2,713.8**
Total Net Sales	6,971.2	7,257.8	8,251.7	**9,346.0**
Other Income	89.4	92.0	97.8	**105.1**
Total Revenues	7,060.6	7,349.8	8,349.5	**9,451.1**
Net Earnings(1)	70.0	74.0	83.1	**108.3**
Net Earnings Per Common Share (Diluted)(1)	0.81	0.83	0.91	**0.98**
Weighted Average Shares Outstanding (Diluted)	96.4	101.9	103.0	**121.4**
U.S. Same-Store Merchandise Sales Increase	1.5%	5.7%	9.1%	**5.6%**
Gasoline Gallons (in millions)	1,405.7	1,543.0	1,686.6	**1,769.6**
Number of 7-Eleven Stores U.S. and Canada	5,423	5,626	5,703	**5,756**
Total 7-Eleven Stores Worldwide	17,104	18,238	19,478	**21,142**
Total Sales in 7-Eleven Stores Worldwide	$ 23,974	$ 24,014	$ 26,953	**$ 29,436**

(1) Net Earnings for the years ending 1998, 1999 and 2000 include an extraordinary gain of $23.3 million, $4.3 million and $1.8 million, respectively, in connection with debt redemption (see Note 8 and Note 19 of the Consolidated Financial Statements).

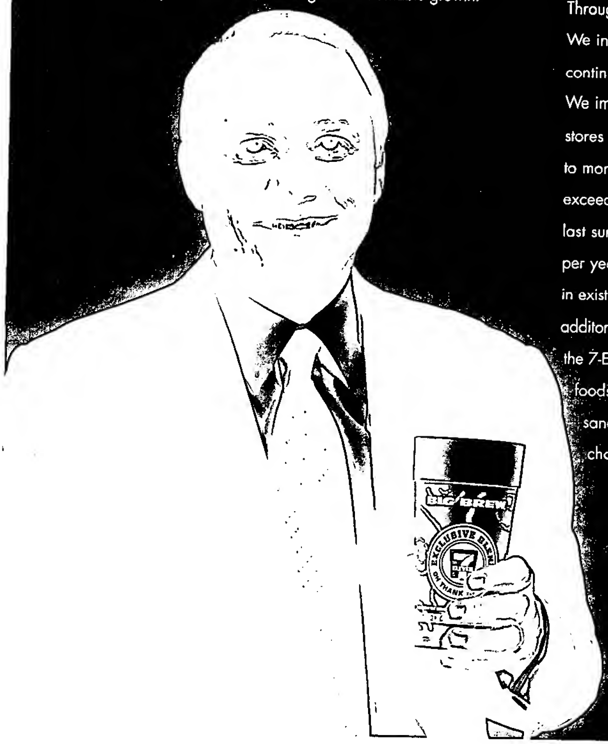




To Our Shareholders:

Our 73rd year was a year full of change. With over 21,000 stores in the U.S. and 19 international markets responding to more than 17 million customers daily, change — especially in convenience retailing — is a way of life. Consumer trends, political shifts, economic swings and even social fads are just some of the variables that affect our business. 7-Eleven's ability to anticipate change and respond to it is key to our success.

The year 2000 was one of positive change at 7-Eleven … change that reaffirmed our commitment to our core business, demonstrated the benefits of our new technology, leveraged our infrastructure, further developed our people and strengthened our position to achieve long-term sustainable growth.



Initiating Positive Change

We listed on the New York Stock Exchange under the symbol SE, after nine years on Nasdaq, improved our balance sheet and returned our debt ratings to investment grade.

In March, IYG Holding Company, the largest 7-Eleven shareholder, invested an additional $540 million for 22.7 million shares of stock in 7-Eleven at a price of $23.75 which equated to an 83 percent premium. This infusion of capital allowed us to reduce debt by more than 20 percent. In addition, we completed a one-for-five reverse stock split in May to facilitate increased institutional interest and analyst coverage of the company.

Throughout the year, we continued to focus on growth. We increased our total revenues over $1 billion through continued growth in U.S. same-store sales of 5.6 percent. We improved our product assortment and added 120 new stores in the United States and Canada, bringing our total to more than 5,700. In fact, total store growth worldwide exceeded 1,600 with our 20,000th store opening in Japan last summer. We anticipate opening 150 – 200 new stores per year, increasing both our market concentration and share in existing markets. As our concept of convenience comes to additonal neighborhoods, new customers will be introduced to the 7-Eleven experience. From Slurpee® to scooters, fresh foods to nutrition bars and healthy beverages, pita sandwiches to pantyhose … 7-Eleven is anticipating the changing preferences of today's consumer.

Responding to Challenges

During the year, we recognized changes in our customers' behavior and began to respond to the general slowdown in the U.S. economy, difficult gasoline market, and unusually cold weather in regions of the country. Any one of these unexpected external forces can have a negative impact, much less all three at the same time.

7-Eleven weathered the storm by relying on the infrastructure and strategies we have carefully put in place, using our Retail Information System (RIS) to manage inventory and stay ahead of consumer trends, continuing to rely on our daily delivery system to keep stores stocked and aggressively introducing new items to keep the product mix fresh. External factors challenged — but ultimately validated — 7-Eleven's benefit from an increased investment in technology and infrastructure.

2000 Highlights

Our performance in a challenging year resulted in improved operating performance as we continue to execute our strategies. For 2000, we reported total revenue increased by $1.1 billion to $9.5 billion, or an increase of 13.2 percent. U.S. same-store sales increased 5.6 percent for 2000, on top of a 9.1 percent increase for 1999, with merchandise sales rising by 6.7 percent and the merchandise gross profit margin increasing to 34.75 percent. EBITDA increased to $472 million and net earnings improved to $108 million or $0.98 per diluted share. Net of extraordinary and unusual items, net earnings were $94 million or $0.87 per diluted share, a 10 percent increase over 1999 earnings per diluted share.

Our results reflect strong sales improvements, healthy margins in both merchandise and gasoline and the continued reinvestment in our future to keep improving our results.

Products & Services

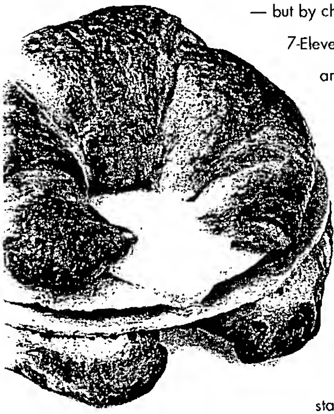
Never content to be just "the corner store," 7-Eleven is working to become a premier retailer — a destination for consumers — known for innovative products and services as well as high-quality staples. In 2000 we introduced a variety of products developed to reach beyond the traditional convenience customer, by improving the offering of fresh foods, targeting women with Heaven Sent™ pantyhose, attracting young consumers with cosmetics and CDs and appealing to health-conscious shoppers with nutritional bars and drinks.

Again responding to consumers' needs for convenient financial services, we began testing our Web-enabled, integrated financial services kiosks, called V.com℠, that merge the financial capabilities of an ATM with the benefits of the Internet. We anticipate a rollout of 89 additional machines in Florida and Texas by mid-2001. In the early stages of introduction, V.com will provide financial services beyond that of a conventional ATM, including money orders, money transfers and check cashing. As a future benefit, we anticipate customers will have touch-screen access to services such as bill payment, deposit capability, event ticketing, travel directions and road maps. V.com has

been designed to allow customers on online shopping experience and fulfillment options using 7-Eleven's daily distribution infrastructure.

Some Things Never Change

The convenience industry is changing ... and 7-Eleven is leading the way, not by changing *what* we do — giving customers what they want, when they want it — but by changing *how* we do it. 7-Eleven will continue to odapt and innovate, repositioning itself to capitolize on opportunities ond even challenges.



Given the likelihood of further economic uncertainty, 7-Eleven will continue to be a desired destination for milk, breod ond other staples. With fewer dollars in his pocket, the consumer may shop more often and buy smaller sizes. 7-Eleven is not only convenient, the infrastructure we've created with our combined distribution centers, or CDCs, guorantees the freshest products avoiloble anywhere. We currently hove 21 CDCs owned and operoted by third-party partners serving more than 3,700 stores with daily distribution, and plan to introduce this benefit to additionol stores in the coming year.

Our commitment to absolute freshness and quality is one of five store initiatives that are the foundation of our success:

Quality	an uncompromising commitment to freshness
Cleanliness	a food-service clean environment that welcomes the customer
Selection	staying in stock on products the customer expects
Service	exceeding the customers' expectations with friendly, fost service, and
Value	using our infrastructure and buying power to offer products at o reasonable price.

People

People provide the true strength of 7-Eleven. From our licensees, franchisees, and management team to our store associates, they are the link from our company to our customers. Our employees and fronchisees execute on important port of our competitive odvantage, understonding the need to respond ond odapt to changes in the market quickly and effectively while providing superior service.

We know the key to success is to continue developing our human resources because they are the daily points of contact with our customers. Recognizing that today's consumers have a choice in the marketplace, our people will make the difference in creating a 7-Eleven thot customers will return to again and again.

Looking Ahead

Our plan is to continue to generate growth and create value for our shareholders. The year 2001 will be as unique and challenging a year as 2000 was, and while no one can predict the economic conditions or competitive challenges we will face, we are ready to respond and take advantage of those opportunities.

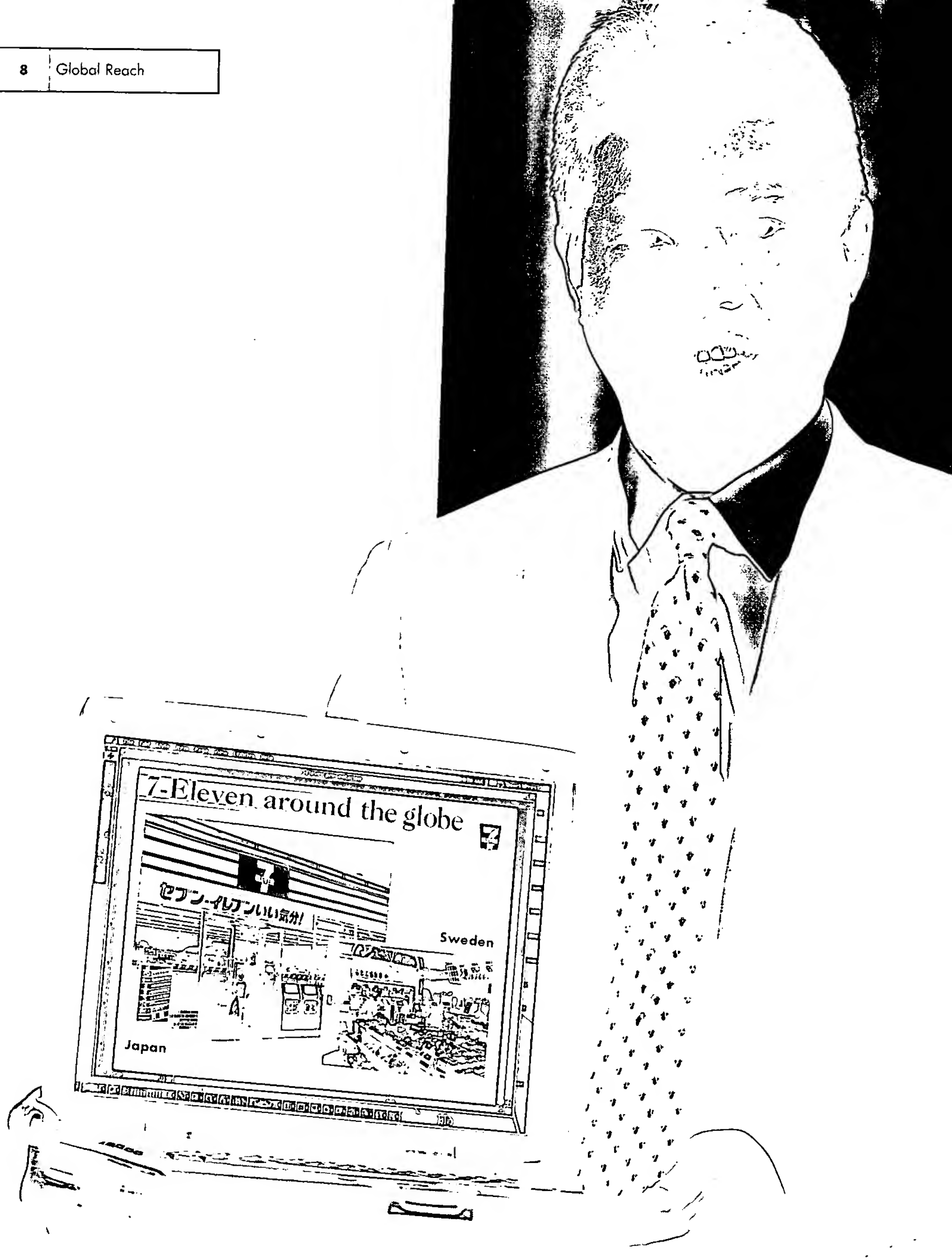
We have a clear business strategy in place to leverage our size, technology and people. We are looking forward to the year ahead as we continue to improve our merchandising processes, build efficiencies in logistics and procurement and leverage our infrastructure.

I want to thank all 7-Eleven employees, franchisees, area licensees and third-party partners for their efforts toward our success, and extend our sincere appreciation to our shareholders for their support.

James W. Keyes
President and Chief Executive Officer

In Memorium

7-Eleven would like to acknowledge the passing in January 2001 of Margaret "Peggy" Philp Thompson. As the wife of the late Joe C. "Jodie" Thompson, former chairman, president and driving force in the creation of The Southland Corporation; and as the mother of John Thompson, former president and chairman; Jere Thompson, former president; and Jodie Thompson, Jr., former senior executive vice president, Mrs. Thompson was a vibrant contributor to Southland/7-Eleven.


7-Eleven around the globe
セブン-イレブンいい気分!
Sweden
Japan

around the globe

The strength of a global brand: product quality, variety, value.

Seven billion customers are served at 7-Eleven each year — seven million per day in the United States alone — so it's no surprise that 7-Eleven is one of the most recognized brands in the world. With more than 21,000 stores in the United States, Canada and 18 international markets — including more than 1,600 stores that opened in 2000 — the company is the world's largest convenience store chain.

Mid-year, we celebrated the opening of the 20,000th 7-Eleven store in the world, located in Tokyo, Japan. Our licensee in Thailand opened their 1,500th store, and our licensee in Taiwan crossed the 2,600 store threshold.

International

In addition to corporate and franchised stores, 7-Eleven leverages its brand recognition through licensees who successfully take our concept of convenience and customize it for regional tastes and lifestyles. In Japan and other Pacific Rim countries where homes do not have large food-storage areas, 7-Eleven convenience means fresh foods, home replacement meals and staples for customers who shop their neighborhood 7-Eleven several times a day.

In another part of the world, Scandinavian licensee Narvesen ASA boasts a fresh food program that accounts for 35 percent of gross profits. Fresh baked breads, cookies and pastries baked in the store each hour, piping hot pizza and pasta, and a large, open case of fresh fruits, vegetables, packaged cheese, salads, yogurt and desserts provide customers with a convenient alternative for any meal. Some stores even have seating areas where customers enjoy fresh meals on-site.

7-Eleven leads the country in beer sales and plans to gain a greater share of the wine market by offering customers high quality domestic and imported wines in the $5 – $10 range, the fastest-growing segment of U.S. wine sales. Customers can choose from Beringer®, Robert Mondavi®, Kendall Jackson® and other popular vintages, as well as 7-Eleven's proprietary Taillan wines, without the hassle of long grocery store check-out lines.

Continually introducing new merchandise is a defining competitive advantage.

7-Eleven customers can enjoy a delicious variety of fresh-baked goods with their morning coffee or as an anytime snack. In U.S. and Canada stores, donut sales increased seven percent in 2000 and cookies were up 22 percent. But Americans aren't the only ones who love fresh pastries. 7-Eleven Inc.'s licensed partner in Scandinavia, Narvesen ASA, operates stores in Norway, Sweden and Denmark where their fresh-baked pastry program represents 11 percent of their stores' overall sales.

New Products

Whether in Baltimore or Bangkok, the ability to continually introduce new merchandise is a defining competitive advantage. Brand strength enables us to capitalize on co-merchandising opportunities with key vendors, combining complementary resources to develop and introduce products that are first, best or available only at 7-Eleven.

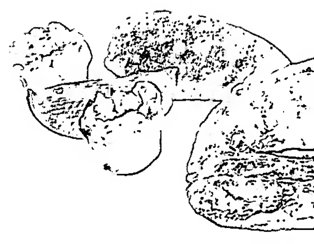
Our alliance with American Express® led to the pre-paid Internet shopping card and a partnership with AT&T resulted in our introduction of the Free2Go℠ wireless phone.

The corporate merchandising department examines thousands of new products annually, always with an eye toward appealing to new shoppers while satisfying existing customers. By introducing as many as 50 new items each week, we keep the product mix fresh. The year 2000 saw the introduction of several unique products intended to attract new customers that have not traditionally been a significant part of the convenience retail customer base.

Women's and Teens' Products

7-Eleven's proprietary Heaven Sent pantyhose were packaged in an innovative, just-bigger-than-a-lipstick container. The department-store-quality hose were created exclusively for 7-Eleven and are part of more than 250 different products targeted specifically at women, including traditional health and beauty products as well as the Heart & Soul line of trendy, high-quality cosmetics.

Armed with research showing teens to be the fastest growing segment of the U.S. population, spending an average of $5,000 per year, 7-Eleven introduced a line of teen personal care products such as temporary tattoos, jewelry and hair accessories. 7-Eleven's state-of-the-art merchandising and distribution systems enabled three to four new teen items to be introduced each



week, keeping the product mix fresh and encouraging incremental sales.

The company also developed a line of items for the youngest audience segment, including Pokemon™, Disney® products, Legos®, GI Joe® figures, and scooters.

Nutrition Products

Other new products, Met-Rx® Low Corb Protein bors and two Bio Chem® Low Carb Defense Bors, which were exclusive to 7-Eleven, brought significant sales from health-conscious customers who are not typically convenience store potrons. In 2000, nutritional bars accounted for 67 percent of the total increose in sales in the snack category, and will continue to play an importont role in the development of this area.

Product Promotions

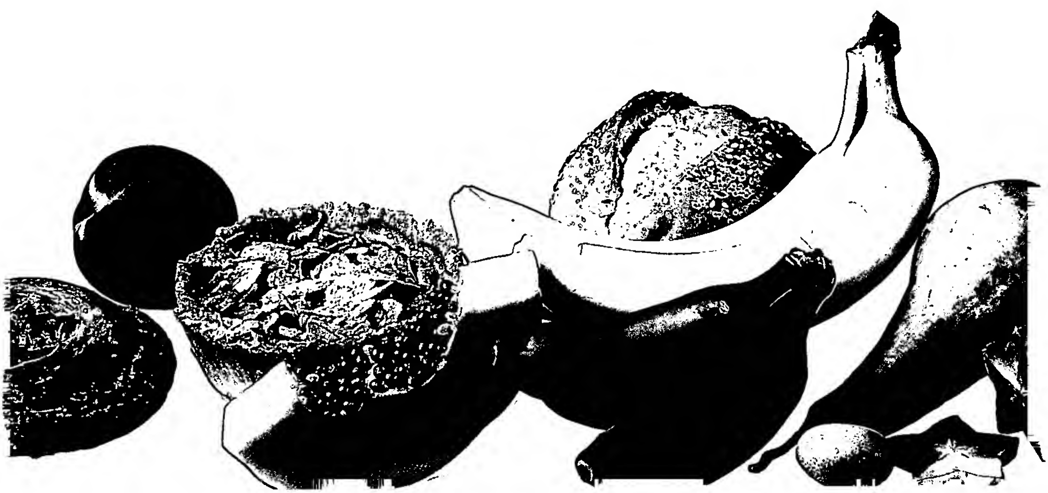
7-Eleven is successful in using marketing and public relations strategies to reinforce key messages, reach new customers and drive sales. In 2000, we targeted new, younger consumers by partnering with theYahoo! Web site to promote Slurpee®, our proprietary, semi-frozen carbonoted beverage. The promotion tied in new 7-Eleven teen items, including music CDs, jewelry and make-up, and positioned 7-Eleven and Slurpee as "cool and hip" through association with Yohoo!

We further leveraged our name recognition in a tie-in promotion with the Simpsons Global Fanfest, o yearlong celebration of the 10th anniversary of the Simpsons TV show.

The promotion generated customer and sales associate excitement, highlighted high-potential, proprietary products and attracted significant media exposure.

The 7-Election 2000 promotion encouraged voter registration and allowed customers to cast their "votes" by selecting a Bush, Gore or regular cup for their Café Select® coffee. Stores sold approximately 4.4 million or 73 percent of the six million Bush/Gore coffee cups printed, and, like the actual election, results of the informal poll were "too close to call!"

As 7-Eleven continues to introduce innovotive new products, we will also continue to develop promotions that generote visibility and promote sales.



around the

"7-Eleven is a great place to start our weekend rides. We meet at the neighborhood store, gas up and get coffee ... it's fast and convenient. Then we hit the road, and while we're out there it's good to know there's always a nearby 7-Eleven where we can stop for a break and a Big Gulp®."

The leading-edge technology that gives 7-Eleven a competitive edge – the Retail Information System (RIS) – supports a nationwide network of combined distribution centers (CDCs) and fresh food commissaries and bakeries. By integrating systems and technology and equipping store managers to control when, how much and what assortment of merchandise is delivered to their stores, 7-Eleven puts the "custom" back in customer. Stores order efficiently, stay in stock on high-demand products and quickly eliminate slow-movers. Customers get the products they want, when they want them.

Product Availability

Unlike visits to other retailers where consumers may browse for hours, most convenience store customers have a few very specific products in mind. The average 7-Eleven customer is in the store less than two minutes and spends under four dollars.

Because more than 70 percent of our sales are merchandise and the typical 7-Eleven store carries some 2,500 items, constantly evaluating product assortment to ensure that stores are stocked only with top sellers is a priority. Not only are slow-moving products costly, they limit the amount of space available for high-demand products.

RIS allows managers to use their space most efficiently, ordering selectively to make sure high-demand products are always available — a critical step toward customer satisfaction and loyalty. RIS allows store managers to track trends and anticipate customer needs; daily deliveries ensure it's only hours between when a product is ordered and when it's on the shelf.

co ner

Our one-of-a-kind distribution system ensures that products arrive fresh and are specific to what neighborhood customers want.

Through our distribution infrastructure, World Ovens® products are delivered daily to 7-Eleven stores ready to enjoy with your morning coffee.

Combined Distribution Centers

When 7-Eleven established a system of combined distribution centers (CDCs) in 1994, it paved the way for more decision making at the store level. Instead of store managers receiving up to 75 separate product shipments from multiple suppliers throughout the week, the suppliers deliver products to the CDC daily, based on orders placed electronically by each 7-Eleven store earlier that same day. Bulk products are then separated into smaller orders for each store at the CDC and delivered to the store late at night when stores and parking lots are less congested. These off-peak deliveries also allow managers to utilize labor more efficiently and ensure that stores are stocked and ready for morning customers.

Each CDC services stores within an approximate 90-minute drive time and the entire network of 21 facilities now delivers to over 3,700 7-Eleven stores. A New England CDC will open in the second quarter of 2001, serving approximately 200 stores. 7-Eleven will continue to leverage this important part of our infrastructure by developing new stores in existing markets served by CDCs.

Consumer trends point to an increased emphasis on freshness, and fresh food is a logical extension of our business. Although about 60 percent of our merchandise sales are food and drink, fresh food accounts for a small percentage, so this category is an area of opportunity and growth. Our network of third-party commissary/bakery operators and CDCs delivers fresh bread, World Ovens® baked goods, milk, 24-hour coded, fresh-made sandwiches and other Deli Central® foods daily. With an infrastructure in place that efficiently supports fresh foods, 7-Eleven is committed to increasing the focus on this area. The Wedge, Sub and Hoagy sandwiches have all been upgraded, and in 2000 we launched the 99-cent value Wedge sandwich.

Combined Distribution Center Locations as of March 1, 2001

- Calgary, Canada
- Vancouver, Canada
- Goodyear, Arizona
- Bay Area/Sacramento, California
- Los Angeles/Pomona Valley, California
- Denver, Colorado
- Orlando, Florida
- Pompano Beach, Florida
- Tampa, Florida
- Chicago, Illinois
- Aberdeen, Maryland
- Capitol Heights, Maryland
- Las Vegas, Nevada
- Burlington, New Jersey
- Long Island, New York
- Austin, Texas
- Dallas/Fort Worth, Texas
- Salt Lake City, Utah
- Chesapeake, Virginia
- Richmond, Virginia
- Franconia, Virginia

New Store Development

7-Eleven's store development strategy is to target locations that provide strong traffic flow, easy access and high visibility. Each site is thoroughly analyzed using sales projections and financial reviews to predict profitability.

In 2000, 7-Eleven opened 120 new stores in the United States and Canada as the company continued its focus on store growth. Concentration in existing markets further leverages our infrastructure, driving efficiencies in our distribution system.

In the Neighborhood

Being a good neighbor is part of doing business at 7-Eleven. The company's community relations programs serve the diverse and changing needs of the communities where we do business. The goals of our charitable giving and outreach efforts are to help strengthen communities and empower people.

Charitable Efforts

In 2000, through charitable contributions of cash and goods, in-store canister collections and local involvement, a total of $2.2 million in support was disbursed to programs addressing literacy, crime and multicultural understanding. In addition, 780,000 pounds of unsold fresh sandwiches and baked goods were donated to local food banks through 7-Eleven's Harvest program.

Education remained a lead focus of the company's community investments. In 2000, we reached our goal of raising more than $1 million for literacy initiatives, and funded more than 300 grants to help children and adults learn to read.

Community Programs

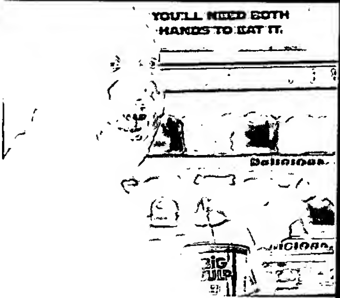
Operation Chill is 7-Eleven's award-winning program designed to reduce crime and enhance relations between 7-Eleven stores, police and youth. The program allows law enforcement officers to "ticket" with free Slurpee coupons youngsters they observe exhibiting positive behavior. Since its inception, more than 500 law enforcement agencies across the country have distributed more than three million coupons.

The Police Community Network Centers program (PCNC) offers local law enforcement satellite offices inside 7-Eleven stores from which officers on the beat can make phone calls and complete paperwork.

The neighborhood offices encourage interaction between residents and police.

7-Eleven's right to sell age-restricted products is a responsibility we take very seriously. The company's Come of Age initiative is a public-awareness and personnel training program designed to prevent the sale of alcoholic beverages, tobacco products, lottery tickets and potential inhalants to minors.

around the



Whether it's hot coffee in the morning or a Big Gulp midday, long-time customer Dewayne Donovan knows refreshment is available anytime at his neighborhood 7-Eleven. "About 15 years ago several regular customers struck up a conversation one morning at the coffee bar. Now we're there every morning ... and the coffee (and opinions!) really flow! We're friends ... neighbors. And we catch up on what's happening with each other at the 7-Eleven. Some in the group even bring their kids. They don't care much for coffee yet, but they're always ready for a Slurpee!"

Many companies have used technology to improve their business, automating a wide range of functions. 7-Eleven is also using technology to empower the retailer, by putting valuable data in the hands of the store operators through easy-to-use decision-support tools.

Our proprietary Retail Information System (RIS) is functional in all 7-Eleven stores, providing the ability to proactively manage every product at every store, 24 hours a day. A significant benefit of RIS is its ability to link together the product supply chain with managers who have store-specific sales information that identifies best-selling products. Furthermore, store operators can anticipate the impact of holidays, weather and consumer buying trends and make product selection decisions based on information, not instinct.

By electronically connecting parties in the 7-Eleven supply chain — stores, corporate headquarters, distribution centers and suppliers — RIS improves order processing efficiency and effectiveness while reducing cycle time and transaction costs. It allows vendors to improve delivery timing, reliability and inventory management. The merchandising and marketing departments evaluate data about existing product velocity and new product acceptance to maximize the effectiveness of the product assortment. The bottom-line payoff of RIS is availability of the products customers want, when they want them — a key factor in developing customer loyalty and improving sales.

Employees

At its core, convenience retailing is a personal interaction — a transaction between store associate and customer. 7-Eleven's technology would not be as effective without dedicated employees and franchisees ... they make the 7-Eleven clock tick!

7-Eleven people are one of the competitive strengths of the company;

clock

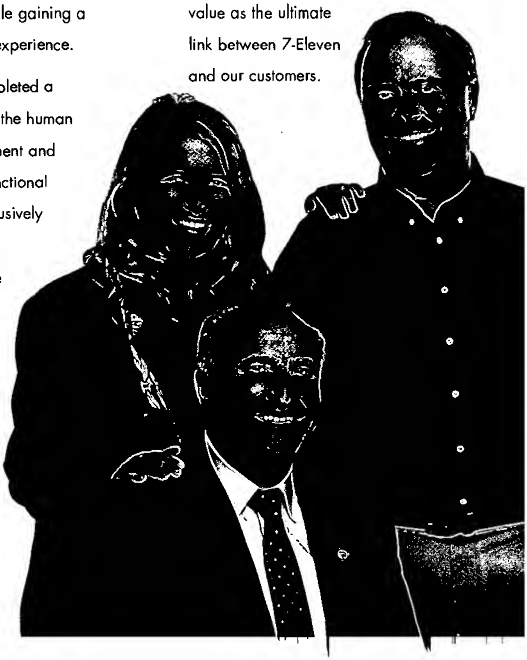
Using technology to empower people.

Staying in touch around the clock is easier than ever with 7-Eleven prepaid phones, cards and accessories.

and growth for 7-Eleven means jobs within the communities it serves. As labor continues to be a challenge in a full workforce economy, 7-Eleven will continue to use creative strategies to aggressively seek and attract qualified job candidates. For example, brisk business and a tight labor market prompted the Chesapeake Division to develop and test a foreign exchange student work program. Through postings on the Internet, we staffed stores with more than 150 top students from Turkey, Lithuania and Bulgaria, who earned money for college tuition while gaining a valuable cultural experience.

7-Eleven has completed a reorganization of the human resources department and created a new functional area to work exclusively on field staffing. This area will drive a number of key initiatives in 2001directed toward store personnel issues.

The company's focus on store personnel includes a staffing structure that improves job performance by assigning specific areas of responsibility to employees while emphasizing their contribution to the overall customer experience. Store associates learn proper food service, machine maintenance and store cleanliness procedures, ordering, and product display. They also receive training in cultural diversity and interaction techniques, age verificotion and safety procedures. This approach recognizes the employee's value as the ultimate link between 7-Eleven and our customers.



7-Eleven Franchisees pictured l to r:
Seated: *Joe Saraceno, Southwest Division and Paula Yocum, Mid-Pacific Division.* **Standing:** *Kathy Letterman, Mid-Pacific Division; Greg Wasinger (center), North Pacific Division; and Tariq Khan, Northeast Division.*

Franchisees

More than half of all 7-Eleven stores in the United States are operated by franchisees who, through a cooperative team spirit, work with management to improve our financial performance. The year 2000 showed positive growth for 7-Eleven franchisees: merchandise sales rose 5.6 percent, gross profit improved by 6 percent and franchisee net income increased 4.7 percent.

Both franchisees and corporate management believe in fostering an open, frank working relationship to achieve a shared vision and common goals. 7-Eleven has continued to expand communications with franchisees through the National Advisory Council, which provides ongoing input on franchise issues as well as new program development and implementation.

In 2000 the National Coalition of Associations of 7-Eleven Franchisees (NCASEF) held its silver anniversary convention in Dallas. The company welcomed franchisees to its corporate home where they met with departments with which they work closely, including accounting, marketing and the Tech Center. 7-Eleven unveiled the Wall of Honor, a 44-foot-long photo-exhibit that celebrates the important role of franchisees in the company's history.

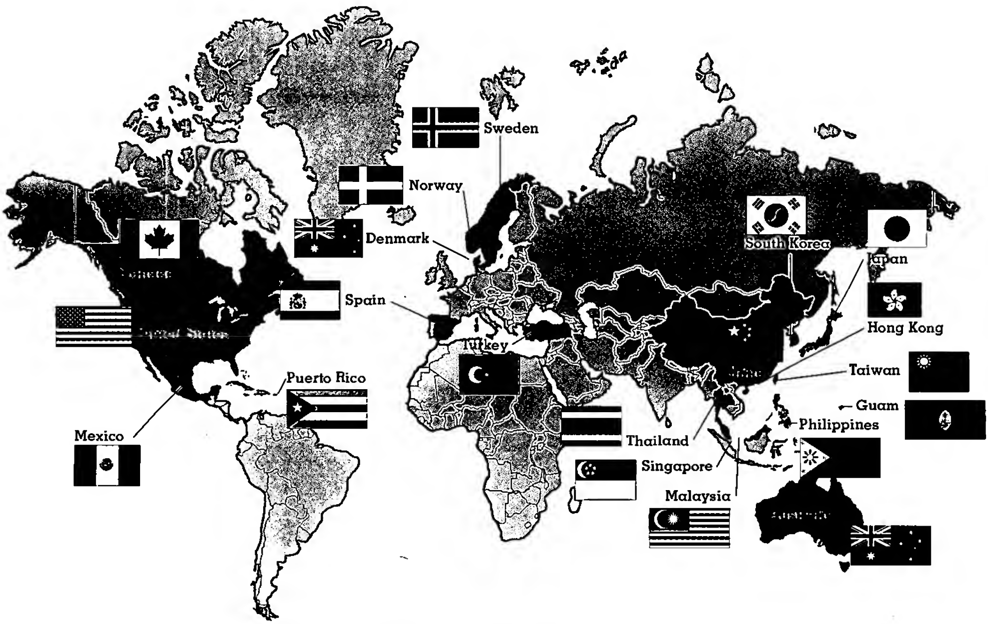
As 7-Eleven moves toward the future, our franchisees and employees will continue to be the front-line representatives of the company's commitment to customer satisfaction.

"The Retail Information System is an investment by 7-Eleven in technology that benefits people. Franchisees see RIS as an important part of our continued success. It enables the collection of sales and trend data that can be utilized to manage inventory more efficiently and effectively. 7-Eleven is in the business of selling customers the product they want when they want it. By having those preferred products in stock, we improve customer satisfaction, loyalty and — ultimately — sales. And that's what Franchisees are looking for. While we recognize the technological advantages of RIS, what we really value is how that technology can positively impact the bottom line."

Tariq Khan, Chairman
National Coalition of Associations of 7-Eleven Franchisees

7-Eleven is convenience

In 73 years, 7-Eleven has grown well beyond the original neighborhood where convenience was born. Our strategic initiatives, infrastructure and technology combine to bring new products and services to customers all over the world. We will continue to innovate and grow with this goal: in any time zone, in any language, in any neighborhood ... 7-Eleven is convenience.



Flags denote locations of company operations.

Financial Review

Selected Financial Data

(Dollars in Millions, Except Per-Share Data)	Years Ended December 31 1996	1997	1998	1999	2000
Statement of Earnings Data:					
Net sales:					
Merchandise	$5,084.0	$5,181.8	$5,573.6	$6,216.1	$6,632.2
Gasoline	1,784.9	1,789.4	1,684.2	2,035.6	2,713.8
Total net sales	6,868.9	6,971.2	7,257.8	8,251.7	9,346.0
Other income	86.4	89.4	92.0	97.8	105.1
Total revenues	6,955.3	7,060.6	7,349.8	8,349.5	9,451.1
LIFO charge	4.7	0.1	2.9	9.9	4.6
Depreciation and amortization	185.4	196.2	194.7	205.5	219.2
Interest expense, net	90.2	90.1	91.3	102.2	79.3
Earnings before income tax expense and extraordinary gain	130.8	115.3	82.6	127.3	153.7
Income tax expense[1]	41.3	45.3	31.9	48.5	47.2
Earnings before extraordinary gain	89.5	70.0	50.7	78.8	106.5
Net earnings[2]	89.5	70.0	74.0	83.1	108.3
Earnings before extraordinary gain per common share:					
Basic	1.09	0.85	0.62	0.96	1.06
Diluted	1.01	0.81	0.60	0.87	0.97
Weighted-average shares outstanding:					
Basic[3]	82.0	82.0	82.0	82.0	100.0
Diluted[3]	96.4	96.4	101.9	103.0	121.4
Balance Sheet Data (end of period):					
Total assets	2,083.0	2,138.6	2,476.1	2,685.7	2,742.3
Total debt	1,805.5	1,852.1	1,958.9	2,044.7	1,337.5
Convertible Quarterly Income Debt Securities[4]	300.0	300.0	380.0	380.0	380.0
Total shareholders' equity (deficit)[3]	(789.0)	(721.5)	(642.2)	(559.6)	82.1

(1) Income tax expense in 2000 includes a $12.5 million benefit in connection with our settlement of certain outstanding tax issues with the IRS.

(2) Net earnings in 1998, 1999 and 2000 include extraordinary gains of $23.3 million, $4.3 million and $1.8 million, respectively, in connection with debt redemption.

(3) In the first quarter of 2000, we issued 22,736,842 shares of common stock at $23.75 per share to IYG Holding Company, our majority owner, in a private placement transaction.

(4) The Convertible Quarterly Income Debt Securities have an interest rate of 4.5% and are potentially convertible into a maximum of 20,924,069 shares of common stock.

This annual report includes certain statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Any statement in this report that is not a statement of historical fact may be deemed to be a forward-looking statement. We often use these types of statements when discussing our plans and strategies, our anticipation of revenues from designated markets and statements regarding the development of our businesses, the markets for our services and products, our anticipated capital expenditures, operations, support systems, changes in regulatory requirements and other statements contained in the annual report regarding matters that are not historical facts. When used in this annual report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and other similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. There can be no assurance that: (i) we have correctly measured or identified all of the factors affecting these markets or the extent of their likely impact; (ii) the publicly available information with respect to these factors on which our analysis is based is complete or accurate; (iii) our analysis is correct or (iv) our strategy, which is based in part on this analysis, will be successful. We do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management Strategy Overview

7-Eleven is the world's largest operator, franchisor and licensor of convenience stores and the largest convenience store chain in North America. Over the last several years we have refined our business strategy to take advantage of our widely recognized brand and to leverage our size, technology and people, including the following key elements:

Information technology provides our stores with a competitive edge. Our proprietary retail information system ("RIS") is designed to build efficiencies into ordering, distribution and merchandising processes and to provide timely and accurate store information on an item-by-item basis.

Merchandising is aided by RIS technology, as product availability is improved by ensuring high-demand products are always available. Brand strength and scale enables us to capitalize on co-merchandising opportunities with key vendors to develop and introduce products that are first, best or available only at 7-Eleven.

An example of **new product development** includes the limited rollout in test stores of a web-enabled, integrated financial services kiosk that merges the capabilities of an ATM with the benefits of the Internet. During the initial stage of introduction, these kiosks will provide financial services beyond those of a conventional ATM, including money orders, money transfers and check cashing. In the future, services such as bill payment, deposit capability, event ticketing and travel directions are anticipated.

Our **fresh food** program continues to evolve and we believe this category represents a tremendous opportunity, as food-to-go increases in popularity. Our network of third-party commissary/bakery operators and combined distribution centers (CDCs) delivers World Ovens® baked goods, milk and bread, fresh-made sandwiches and other foods daily to over 3,700 stores.

Developing new stores continues to be a major initiative and accordingly we opened 120 new stores in the United States and Canada in 2000. In 2001 we plan to open approximately 150 to 200 new stores, focusing on existing markets to further leverage our infrastructure and maximize the efficiencies of the CDCs.

General

Our revenue principally consists of merchandise and gasoline sales and to a lesser extent royalty income from licensees. Our primary expense consists of cost of goods sold, operating expenses, interest expense and taxes. The following discussion and analysis provides information that management believes to be relevant to understanding 7-Eleven's financial condition and results of operations.

Management's Discussion and Analysis of Financial Condition (continued)

Comparison of 2000 to 1999 Results

Except where noted as "same store," all per-store numbers refer to an average of all stores rather than only stores open more than one year.

(In Millions)	Years Ended December 31 1999	2000
Net Sales		
Merchandise sales	$6,216.1	$6,632.2
Gasoline sales	2,035.6	2,713.8
Total net sales	$8,251.7	$9,346.0
Merchandise sales growth – U.S. same store	9.1%	5.6%
Gasoline gallons sold	1,686.6	1,769.6
Gasoline gallon sales change – per store	3.5%	0.6%
Average retail price of gasoline per gallon	$ 1.21	$ 1.53

Merchandise sales for 2000 increased $416.1 million, or 6.7%, over 1999. We attribute this increase to U.S. same-store merchandise sales growth of 5.6% and operating an average of 60 additional stores in 2000 as compared to 1999. The largest contributors to the merchandise sales growth were cigarettes, prepaid cards, beer, non-carbonated beverages, coffee and snacks. Wholesale cigarette cost increases, which were reflected in higher retail prices, accounted for less than two percentage points of the increase in U.S. same-store merchandise sales, while contributing approximately five percent to the 1999 same-store growth. Growth in other categories was fueled by new items, equipment upgrades and an improved product assortment, which was offset, in part, by decreases in the sales of frozen beverages, newspapers and other publications.

Gasoline sales for 2000 increased $678.2 million, or 33.3%, over 1999. We attribute this increase primarily to a higher average retail price of gasoline and operating an average of 95 additional gasoline stores. The average retail price of gasoline was $1.53 per gallon in 2000, a 32-cent increase over 1999. We believe the high price of gasoline adversely affected the demand for gasoline and accordingly impacted our gallons sold. Gallons sold per store increased 0.6% over 1999, the result of adding new stores, whose average gallon volume is higher than our existing store average. Industry wide, the demand for gas was flat in 2000, compared to 1999.

(In Millions)	Years Ended December 31 1999	2000
Gross Profit		
Merchandise gross profit	$2,142.4	$2,304.6
Gasoline gross profit	223.4	238.9
Total gross profit	$2,365.8	$2,543.5
Merchandise gross profit margin	34.46%	34.75%
Merchandise gross profit growth – per store	8.8%	6.4%
Gasoline gross profit margin – cents per gallon	13.25	13.50
Gasoline gross profit change – per store	1.7%	2.5%

Merchandise gross profit for 2000 increased $162.2 million, or 7.6%, over 1999 as a result of higher sales, combined with gross profit margin improvement to 34.75% from the prior year's 34.46%. Gross profit margin improvement was due to a combination of a change in product mix and reduced shortages, which we attribute to initiatives put in place to improve store-level accountability.

Gasoline gross profit for 2000 increased $15.5 million, or 6.9%, over 1999 as a result of new gasoline outlets opened in 1999 and 2000. In addition, gasoline gross profit margin improved to 13.50 cents per gallon for 2000 compared to 13.25 cents per gallon in 1999. Our gasoline strategy is to manage by daily price and volume tracking at store level, which helps minimize the adverse effects of gasoline volatility. As a result of these factors, gasoline gross profit per store increased 2.5% for the year, compared to 1999.

Other Income

Other income for 2000 was $105.1 million, an increase of $7.2 million, or 7.4%, from $97.9 million in 1999. We attribute this increase to higher royalty income from our area licensees, resulting from both higher sales at stores operated by licensees and an increase in the number of such stores, combined with additional franchise fees. We received nearly $58 million of royalties from an area license agreement with Seven-Eleven Japan during 2000. Royalty payments from

Seven-Eleven Japan will be reduced by approximately 70% in accordance with the terms of the amended license agreement one year following the final repayment of our 1988 yen-denominated loan. At the current trend, we project the 1988 yen-denominated loan will be fully repaid during the third quarter of 2001.

Franchisee Gross Profit Expense

We report all sales and gross profits from domestic franchised stores in our consolidated results and record as an expense a percentage of the gross profits generated by those same franchised stores. Franchisee gross profit expense for 2000 was $667.3 million, an increase of $55.1 million, or 9.0%, from $612.2 million in 1999. We attribute this to higher per store gross profits at franchised stores and an increase in the number of stores operated by franchisees.

Operating, Selling, General and Administrative Expense ("OSG&A")

OSG&A for 2000 was $1,748.3 million, an increase of $126.4 million, or 7.8%, from $1,621.9 million in 1999. The increase in OSG&A was partly due to the cost of operating an average of 60 more stores, approximately $32 million of incremental costs related to the implementation of our proprietary retail information system and increased credit card processing charges, due in part to the significantly higher gasoline prices.

The ratio of OSG&A to net sales decreased to 18.7% for 2000 from 19.7% for 1999. In 1999, OSG&A included a credit of $14.0 million related to environmental legislation changes in California, which was partially offset by $4.7 million of severance expenses. After adjusting for these items and assuming that the average retail price of gasoline for 2000 was reduced to the level which prevailed in 1999, the ratio of OSG&A to net sales would have increased slightly to 19.9% in 2000, from 19.8% in 1999.

For 2001, we expect the operational costs for our California stores to rise because electricity prices in California have increased significantly over the past few months.

Interest Expense, Net

Net interest expense for 2000 was $79.3 million, a decrease of $22.9 million, or 22.4%, from $102.2 million in 1999. Repayment of borrowings with proceeds from the sale of common stock to IYG Holding Company on March 16, 2000, (see Liquidity and Capital Resources for more information) was the primary contributor to the decrease. Net interest expense in 2001 is expected to decrease approximately $10 million, compared to 2000, based on anticipated levels of debt and interest rate projections.

In accordance with Statement of Financial Accounting Standards No. 15 ("SFAS No. 15"), we do not recognize interest expense on our debentures in our statement of earnings. These debentures are recorded at an amount equal to the future undiscounted cash payments, both principal and interest. Accordingly, the cash interest payments are charged against the recorded amount of the debentures and are not treated as interest expense.

Income Tax Expense

Income tax expense on earnings before extraordinary gains for 2000 was $47.2 million and $48.5 million in 1999. The 2000 expense is net of a non-recurring benefit of $12.5 million, which resulted from a favorable settlement with the Internal Revenue Service related to audits of our federal income taxes for the 1992 through 1995 tax years. Excluding the non-recurring benefit, our effective tax rate was 38.8% for 2000 and 38.1% in 1999.

Extraordinary Gain

In December 2000, we purchased $36.1 million of the outstanding principal of debt related to Cityplace, our corporate headquarters, for $33.2 million, resulting in a $1.8 million after-tax gain (see Note 8 to the Consolidated Financial Statements). In 1999, we redeemed $19.4 million of our debentures resulting in a $4.3 million after-tax gain. This gain resulted from the retirement of future undiscounted interest payments as recorded under SFAS No. 15, combined with repurchasing a portion of the debentures below their face amount.

Management's Discussion and Analysis of Financial Condition (continued)

Net Earnings

Net earnings for 2000 were $108.3 million ($0.98 per diluted share), an increase of $25.2 million, or 30.3%, from $83.1 million ($0.91 per diluted share) in 1999. Net earnings before extraordinary gains (see preceding paragraph) were $106.5 million ($0.97 per diluted share) for 2000, an increase of $27.7 million, or 35.2%, from $78.8 million ($0.87 per diluted share) in 1999. The diluted per-share data reflects a one-for-five reverse split of our common stock effected May 1, 2000.

Seasonality

Weather conditions can have a significant impact on our sales, as buying patterns have shown that our customers increase their transactions and also purchase higher profit margin products when weather conditions are favorable. Consequently, our results are seasonal, and accordingly we typically earn more during the warmer second and third quarters.

Comparison of 1999 to 1998 Results

(In Millions)	Years Ended December 31 1998	1999
Net Sales		
Merchandise sales	$5,573.6	$6,216.1
Gasoline sales	1,684.2	2,035.6
Total net sales	$7,257.8	$8,251.7
Merchandise sales growth – U.S. same store	5.7%	9.1%
Gasoline gallons sold	1,543.0	1,686.6
Gasoline gallon sales change – per store	4.2%	3.5%
Average retail price of gasoline per gallon	$ 1.09	$ 1.21

Merchandise sales for 1999 increased $642.5 million, or 11.5%, over 1998. We attribute this increase to U.S. same-store merchandise sales growth of 9.1% and operating an average of 121 additional stores in 1999 as compared to 1998. Excluding the impact of cigarette cost increases passed through to customers, our U.S. same-store merchandise sales were approximately 4% higher in 1999 as compared to 1998. Categories contributing to U.S. same-store merchandise sales growth were prepaid phone cards, trading cards and non-carbonated beverages, primarily as a result of new product introductions. This growth was offset, in part, by decreases in the sales of newspapers, carbonated beverages and prepackaged bakery goods.

Gasoline sales for 1999 increased $351.4 million, or 20.9%, over 1998. We attribute this increase to a higher average retail price of gasoline, higher average gallons sold per store and operating an average of 118 additional gasoline stores. The average retail price of gasoline was $1.21 per gallon in 1999, a $0.12 increase from $1.09 per gallon in 1998. Average gallons sold per store increased 3.5% over 1998, primarily due to adding new higher volume stores.

(In Millions)	Years Ended December 31 1998	1999
Gross Profit		
Merchandise gross profit	$1,927.6	$2,142.4
Gasoline gross profit	208.1	223.4
Total gross profit	$2,135.7	$2,365.8
Merchandise gross profit margin	34.58%	34.46%
Merchandise gross profit growth – per store	3.2%	8.8%
Gasoline gross profit margin – cents per gallon	13.48	13.25
Gasoline gross profit change – per store	7.5%	1.7%

Merchandise gross profit for 1999 increased $214.8 million, or 11.1%, over 1998. We attribute this increase to higher U.S. same-store merchandise sales and our operating a larger number of stores. Our gross profit margin was 34.46% in 1999 compared to 34.58% in 1998. This margin decline was principally the result of lower gross margin on cigarettes due to wholesale and retail price increases. While our margin on cigarettes decreased in 1999, per store gross profits generated from cigarette sales increased primarily due to more effective merchandising. Somewhat offsetting the margin decline was the successful introduction of new higher margin products including Pokémon trading cards, 7-Eleven Früt Cooler™ and 7-Eleven Bakery Stix,™ combined with increased sales of some traditional higher margin products, such as coffee and non-carbonated beverages. Merchandise gross profit per store increased 8.8% in 1999 compared to 1998.

Gasoline gross profit for 1999 increased $15.4 million, or 7.4%, from $208.1 million in 1998, which represents an increase of 1.7% per store. We attribute this increase in gasoline gross profit to higher gallons sold per store and operating a larger number of gasoline stores in 1999 as compared to 1998, partially offset by a decline in gasoline gross profit margin to 13.25 cents per gallon in 1999 from 13.48 cents per gallon in 1998. We attribute this margin decrease primarily to rising wholesale gasoline costs.

Other Income

Other income for 1999 was $97.9 million, an increase of $5.9 million, or 6.3%, from $92.0 million in 1998, primarily due to increased franchise fees. In addition, royalty income from our area licensees increased as a result of higher sales at stores operated by licensees and an increase in the number of such stores.

Franchisee Gross Profit Expense

Franchisee gross profit expense for 1999 was $612.2 million, an increase of $61.2 million, or 11.1%, from $551.0 million in 1998. We attribute this increase to higher gross profits at franchised stores.

Operating, Selling, General and Administrative Expense

OSG&A for 1999 was $1,621.9 million, an increase of $119.1 million, or 7.9%, from $1,502.8 million in 1998. We attribute this increase primarily to higher store labor costs, the costs of operating a larger number of stores, approximately $41 million of incremental costs related to the implementation of our proprietary retail information system and additional costs associated with other strategic initiatives.

The ratio of OSG&A to net sales decreased to 19.7% for 1999 from 20.7% for 1998. In 1999, OSG&A included a credit of $14.0 million related to environmental legislation changes in California, which was partially offset by $4.7 million of severance expenses. In 1998, OSG&A included $14.1 million associated with the write-offs of computer equipment and development costs and $7.6 million in severance and related costs. After adjusting for these items and assuming that the average retail price of gasoline for 1999 was reduced to the level which prevailed in 1998, the ratio of OSG&A to net sales would have been basically flat year over year.

Interest Expense, Net

Net interest expense for 1999 was $102.2 million, an increase of $10.9 million, or 12.0%, from $91.3 million in 1998. We attribute this increase to higher borrowing levels incurred to finance new store development, other initiatives and the redemption of a total of $65 million of our debentures in the fourth quarter of 1998 and first quarter of 1999 (see Extraordinary Gain for more information). We accounted for the redeemed debentures in accordance with SFAS No. 15; accordingly, we did not recognize interest expense on these debentures in our statement of earnings. As a result, interest expense on debt used to redeem our debentures increased our reported interest expense.

Income Tax Expense

Income tax expense on earnings before extraordinary gains for 1999 was $48.5 million compared to $31.9 million in 1998. Our effective tax rate was 38.1% in 1999 compared to 38.6% in 1998.

Extraordinary Gain

In 1999, we redeemed $19.4 million of our debentures resulting in a $4.3 million after-tax gain. During 1998, we redeemed $45.6 million of our debentures resulting in a $23.3 million after-tax gain. These gains resulted from the retirement of future undiscounted interest payments as recorded under SFAS No. 15, combined with repurchasing a portion of the debentures below their face amount.

Net Earnings

Net earnings for 1999 were $83.1 million ($0.91 per diluted share), an increase of $9.1 million, or 12.2%, from $74.0 million ($0.83 per diluted share) in 1998. Net earnings before extraordinary gains (see preceding paragraph) for 1999 were $78.8 million ($0.87 per diluted share), an

increase of $28.1 million, or 55.4%, from $50.7 million ($0.60 per diluted share) in 1998. The diluted per-share data reflects a one-for-five reverse split of our common stock effected May 1, 2000.

Liquidity and Capital Resources

The majority of our working capital is provided from three sources:

- cash flows generated from our operating activities;
- a $650 million commercial paper facility, guaranteed by Ito-Yokado Co., Ltd.; and
- seasonal borrowings of up to $200 million under our revolving credit facility.

We believe that operating activities, coupled with available working capital facilities, will provide sufficient liquidity to fund operating and capital expenditure programs, as well as to service debt requirements. The outstanding balance at December 31, 2000, for commercial paper was $395.6 million, while there were no amounts outstanding under the revolver. We expect capital expenditures for 2001, excluding lease commitments, to be in excess of $300 million, which includes capital associated with opening or acquiring approximately 150 to 200 new stores.

On January 25, 2001, we entered into a new unsecured bank credit agreement, refinancing the old credit agreement, which was scheduled to mature on February 27, 2002, with a new $200 million revolving credit facility. The new revolving credit facility contains a sub-limit of $150 million for letters of credit. As of December 31, 2000, outstanding letters of credit issued pursuant to the credit agreement totaled $64.0 million.

On January 25, 2001, we entered into a new lease facility that will provide up to $100 million of off-balance-sheet financing to be used for the construction of new stores. Funding under this facility is available through January 2003, with a final maturity of the leases in July 2006.

On March 16, 2000, IYG Holding Company purchased 22,736,842 newly issued shares of our common stock for $540.0 million, or $23.75 per share, in a private placement transaction. We used the net proceeds from this transaction to repay the outstanding balance on our bank term loan, to repay the outstanding balance of our bank revolver and to reduce indebtedness under our commercial paper facility.

In January 2000, we entered into a sale-leaseback agreement for 33 of our store properties whereby we sold land, buildings and related improvements, which were then leased back to us. We received net proceeds of $71.9 million on the sale. The sale resulted in approximately $12 million of deferred gains, which we will recognize on a straight-line basis over the initial term of the leases. We used all of the proceeds from this transaction to pay down our revolving credit facility.

In August 1999, we entered into a lease facility that provides up to $100 million of off-balance-sheet financing to be used for the construction of new stores. Funding under this facility is available through August 2001 with a final maturity of the leases in February 2005. As of December 31, 2000, $73.0 million was funded under this facility, which we expect will be fully funded by the end of the second quarter of 2001.

Cash Flows from Operating Activities

Net cash provided by operating activities was $452.5 million for 2000, compared to $281.9 million in 1999, an increase of $170.6 million. We attribute this to increased levels of net earnings as adjusted for non-cash items and changes in certain balance sheet amounts. Included in the changes in balance sheet amounts was an increase in accounts payable and other liabilities resulting from a change in terms with one of our major vendors. In addition, inventory levels were lower in 2000, due in large part to a strategic build-up of inventories in preparation for potential Y2K-related sales in December 1999.

Cash Flows from Investing Activities

Net cash used in investing activities was $229.4 million for 2000, compared to $350.2 million in 1999. Payments for

capital expenditures were $300.4 million for 2000, compared to $428.8 million in 1999. In addition, we received $71.9 million of net proceeds from a sale-leaseback transaction during 2000, compared to $57.3 million in 1999.

Capital expenditures for each of the periods were used for new store development, continued implementation of our retail information system, new equipment to support merchandising initiatives as well as upgrading store and gasoline facilities and equipment and compliance with environmental regulations.

Cash Flows from Financing Activities

Net cash used in financing activities was $166.7 million for 2000, compared to cash provided by financing activities of $58.1 million in 1999. Net repayments under commercial paper and revolving credit facilities totaled $483.6 million for 2000, compared to net borrowings of $210.8 million in 1999. Net long-term debt repayments for 2000 were $240.3 million, compared to $147.4 million in 1999. Cash from financing activities for 2000 also included $539.7 million in net proceeds from issuance of common stock that was used to pay down debt.

Quantitative and Qualitative Disclosure About Market Risk

The following discussion summarizes the financial and derivative instruments we held as of December 31, 2000, which are sensitive to changes in interest rates, foreign exchange rates and equity prices. We use interest-rate swaps to manage the primary market exposures associated with underlying liabilities and anticipated transactions. We use these instruments to reduce risk by essentially creating offsetting market exposures. In addition, our two yen-denominated loans effectively serve as an economic hedge of our exposure to yen-dollar currency fluctuations. The instruments we hold are not leveraged and are held for purposes other than trading. On March 16, 2000, we received $540.0 million in proceeds from a private placement transaction. We used these proceeds to reduce floating rate debt, which has lowered our exposure to interest rate risk (see Liquidity and Capital Resources for more information). In the normal course of business, we also face risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk and legal risk and are not represented in this discussion.

Interest-Rate Risk Management

The table below presents descriptions of the floating-rate financial instruments and interest-rate-derivative instruments we held at December 31, 2000. We entered into an interest-rate swap to achieve the levels of variable and fixed-rate debt approved by senior management. Under the interest-rate swap, we agreed with other parties to exchange the difference between fixed-rate and floating-rate interest amounts on a quarterly basis.

For the debt, the table below presents principal cash flows that exist by maturity date and the related average interest rate. For the swap, the table presents the notional amounts outstanding and expected interest rates that exist by contractual dates. We used the notional amount to calculate the contractual payments to be exchanged under the contract and estimated the variable rates based on implied forward rates in the yield curve at the reporting date.

(Dollars in Millions)	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
Floating-Rate Financial Instrument:								
Commercial paper	$ 0	$ 0	$ 0	$ 0	$0	$396	$396	$396
Average interest rate	5.5%	5.8%	6.0%	6.0%	6.0%	6.0%	5.9%	
Interest-Rate Derivatives:								
Notional amount	$250	$250	$250	$250	$0	$ 0	$250	($2)
Average pay rate	6.1%	6.1%	6.1%	6.1%	0.0%	0.0%	6.1%	
Average receive rate	5.5%	5.8%	6.0%	6.0%	0.0%	0.0%	5.8%	

Management's Discussion and Analysis of Financial Condition (continued)

The negative $2.0 million fair value of the interest-rate swap represents an estimate of the amount we would pay to the counterparty if we had chosen to terminate the swap as of December 31, 2000. See Note 10 to the Consolidated Financial Statements for detailed information on floating-rate and fixed-rate liabilities as well as fair value and derivative discussions. As of December 31, 2000, approximately 30% of our debt contained floating rates that will be unfavorably impacted by rising interest rates. We have effectively eliminated 63% of our exposure to rising interest rates through an interest rate swap agreement. The weighted-average interest rate for such debt, including the impact of the interest rate swap agreement, was 6.2% for the year ended December 31, 2000, as compared to 5.6% in 1999.

Foreign-Exchange Risk Management

We recorded more than $77 million in royalty income in 2000 that could have been impacted by fluctuating exchange rates. Approximately 75% of such royalties were from area license agreements with Seven-Eleven Japan ("SEJ"). SEJ royalty income has not fluctuated with exchange rate movements, as we have effectively hedged this exposure by using the royalty income to make principal and interest payments on our yen-denominated loans. This economic hedge remains, although SFAS No. 133 nullified the accounting treatment we were applying to the SEJ royalty and yen-denominated loans. As a result, both the SEJ royalty and yen-denominated loans are subject to exchange rate fluctuations (see Recently Issued Accounting Standard).

In addition, we are exposed to fluctuating exchange rates on the non-Seven-Eleven Japan portion of our royalties earned in foreign currency, but we do not believe future risk is material based on current estimates. We have several wholly or partially-owned foreign subsidiaries and are susceptible to exchange-rate risk on earnings from these subsidiaries, however, based on current estimates, we do not consider future foreign-exchange risk to be material.

Equity-Price Risk Management

We hold equity securities of other companies, which are classified as available for sale and are carried on our consolidated balance sheet at fair value. At December 31, 2000, we held 192,500 shares of Affiliated Computer Services, Inc ("ACS") common stock, which had no cost, but had a fair value of $11.7 million. We obtained the ACS stock in 1988, as partial consideration for our entering into a mainframe data processing contract with ACS. At the time, ACS was a privately held start-up company, and, accordingly, the stock was valued with no cost. Changes in fair value are recognized as other comprehensive earnings, net of tax, as a separate component of shareholders' equity.

Other Issues

Environmental

In December 1988, we closed our chemical manufacturing facility in New Jersey. We are required to conduct environmental remediation at the facility, including groundwater monitoring and treatment for a projected 15-year period, which commenced in 1998. We have recorded undiscounted liabilities, representing our best estimates of the clean-up costs, of $6.3 million at December 31, 2000. In 1991, we entered into a settlement agreement with the former owner of the facility pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. Based on the terms of the settlement agreement and the financial resources of the former owner, we have a receivable recorded of $3.8 million at December 31, 2000.

Additionally, we accrue for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at our existing and previously operated gasoline sites where releases of regulated substances have been detected. At December 31, 2000, our estimated undiscounted liability for these sites was $27.3 million. This estimate is based on our prior experience with gasoline sites and contractors who perform environmental assessment and remediation work as well as other factors such as the age of the tanks and the location of tank sites. We anticipate

that substantially all of the future remediation costs for detected releases of regulated substances at those remediation sites of which we are aware, as of December 31, 2000, will be incurred within the next four to five years.

Under state reimbursement programs, we are eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. Accordingly, at December 31, 2000, we had recorded a net receivable of $50.3 million based on the estimated state reimbursements. In assessing the probability of state reimbursements, we take into consideration each state's fund balance, revenue sources, existing claim backlog, status of clean-up activity and claim ranking systems. As a result of these assessments, the recorded receivable amount is net of an allowance of $7.7 million.

While there can be no assurance of the timing of the receipt of state reimbursement funds, based on our experience we expect to receive the majority of state reimbursement funds, except from California, within one to three years after our payment of eligible remediation expenses. This time period assumes that the state administrative procedures for processing such reimbursements have been fully developed. We estimate that we will receive California reimbursement funds within one to ten years after our payment of eligible remediation expenses. As a result of the timing for reimbursements, we have present-valued the portion of the recorded receivable amount that relates to remediation activities that have already been completed at a discount rate of approximately 5.1%. Thus, the recorded receivable amount is also net of a discount of $11.4 million.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change in the future as governmental requirements and state reimbursement programs continue to be implemented or revised.

Litigation

We are a defendant in two legal actions, which are referred to as the 7-Eleven Owners for Fair Franchising and the Valente cases, filed by franchisees in 1993 and 1996, respectively. A nationwide settlement was negotiated in 1997, and, in connection with the settlement, these two cases were combined on behalf of a class of all persons who franchised 7-Eleven® convenience stores from us in the United States at any time between January 1, 1987 and July 31, 1997. A total of 98.5% of the class members have approved the settlement, and the court presiding over the settlement process gave its final approval of the settlement on April 24, 1998. The settlement provides that class members who are former franchisees will share in a settlement fund, that we will make certain changes to the franchise agreements of class members who are current franchisees and that we will pay certain attorney fees. Our accruals are sufficient to cover the total settlement costs, including payments due to former franchisees when the settlement becomes effective.

Certain parties challenged the settlement in an appeal to the California Court of Appeal, which affirmed the settlement on December 29, 2000. The opponents of the settlement filed a petition for review asking the California Supreme Court to review the settlement. Assuming the California Supreme Court decides not to grant review, the settlement will become final during the second quarter of 2001.

Recently Issued Accounting Standard

We have completed our review of derivative instruments and other contracts that might be considered or contain derivative instruments in connection with our adoption of the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") as of January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities.

Management's Discussion and Analysis of Financial Condition (continued)

Under SFAS No. 133, the $250 million interest rate swap will be treated as a cash flow hedge of our interest rate exposure in connection with our commercial paper program. Upon adoption of SFAS No. 133, the transitional adjustment was to record a liability of $2.0 million representing the fair value of the interest rate swap as of January 1, 2001, with the offset of $1.2 million (net of deferred taxes of $800,000) to Accumulated Other Comprehensive Earnings. The carrying value of the interest rate swap will be adjusted to its fair value at each reporting date with a corresponding offset to Accumulated Other Comprehensive Earnings. Additionally, a review of the effectiveness of the interest rate swap at each reporting date will be performed and the ineffective portion of the interest rate swap will be recognized in earnings for the period reported.

In addition, upon adoption of SFAS No. 133, we transferred January 1, 2001, asset and liability balances of $2.4 million and ($4.3 million), respectively, related to the interest rate swap to Accumulated Other Comprehensive Earnings. These balances will continue to be amortized into earnings as an adjustment to interest expense through February 2004.

As discussed in Foreign-Exchange Risk Management and Note 10, we use the SEJ royalty receipts to service the monthly principal and interest payments on our yen loans. This arrangement provides an effective economic hedge against fluctuations in the Japanese yen to U.S. dollar exchange rate. As a result of this hedge, our yen-denominated loans and related interest expense and payable had previously been recorded in the consolidated financial statements utilizing the Japanese yen to U.S. dollar exchange rates in effect at the date of the borrowings (125.35 for the 1988 yen loan and 129.53 for the 1998 yen loan). Additionally, the SEJ royalty had been recorded at the 125.35 exchange rate as it has been utilized to service the 1988 yen loan.

Although SFAS No. 133 nullified the hedge accounting treatment the Company was applying to the SEJ royalty and yen loans, the effective economic hedge against changes in the Japanese yen to U.S. dollar exchange rate remains in place. Upon adoption of SFAS No. 133, we converted the yen loans, related interest payable and the SEJ royalty receivable to reflect the Japanese yen to U.S. dollar exchange rate quoted for January 1, 2001 (114.35 yen to one U.S. dollar). As a result, our transitional adjustment increased the yen loans, related interest payable and SEJ royalty receivable by $16.1 million, with the offsetting reduction of $9.8 million (net of deferred taxes of $6.3 million) to Accumulated Other Comprehensive Earnings. The transitional adjustment to Accumulated Other Comprehensive Earnings will be amortized into earnings over the remaining term of the yen loans. Prospectively, we will adjust the balance of the yen loans at each reporting date to reflect the current Japanese yen to U.S. dollar exchange rate, and the resultant foreign currency exchange gain or loss will be recognized in earnings. In addition, we will record the SEJ royalty and interest expense on the yen loans at the average Japanese yen to U.S. dollar exchange rate for the respective period.

Consolidated Balance Sheets

(Dollars in Thousands, Except Per-Share Data)	December 31 1999	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 76,859	$ 133,178
Accounts receivable	179,039	187,510
Inventories	134,050	106,869
Other current assets	115,328	112,795
Total current assets	505,276	540,352
Property and equipment	1,880,520	1,926,795
Other assets	299,870	275,141
Total assets	$ 2,685,666	$ 2,742,288
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Trade accounts payable	$ 168,302	$ 231,384
Accrued expenses and other liabilities	401,216	445,769
Commercial paper	34,418	–
Long-term debt due within one yeor	207,413	76,156
Total current liabilities	811,349	753,309
Deferred credits and other liabilities	251,073	265,551
Long-term debt	1,802,819	1,261,322
Convertible quarterly income debt securities	380,000	380,000
Commitments and contingencies		
Shareholders' equity (deficit):		
Preferred stock, $.01 par value; 5,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, $.0001 par value; 1,000,000,000 shares authorized; 81,999,790 and 104,767,679 shares issued and outstanding	8	10
Additional capital	625,761	1,166,225
Accumulated deficit	(1,194,896)	(1,086,604)
Accumulated other comprehensive earnings	9,552	2,475
Total shareholders' equity (deficit)	(559,575)	82,106
Total liabilities and shareholders' equity (deficit)	$ 2,685,666	$ 2,742,288

See notes to consolidated financial statements.

Consolidated Statements of Earnings

(Dollars in Thousands. Except Per-Share Data)	Years Ended December 31 1998	1999	2000
Revenues			
Merchandise sales (including $466,013, $527,422 and $602,412 in excise taxes)	$5,573,606	$6,216,133	$6,632,211
Gasoline sales (including $577,457, $625,893 and $662,751 in excise taxes)	1,684,184	2,035,557	2,713,770
Net sales	7,257,790	8,251,690	9,345,981
Other income	92,021	97,853	105,066
Total revenues	7,349,811	8,349,543	9,451,047
Costs and Expenses			
Merchandise cost of goods sold	3,645,974	4,073,743	4,327,594
Gasoline cost of goods sold	1,476,144	1,812,115	2,474,844
Total cost of goods sold	5,122,118	5,885,858	6,802,438
Franchisee gross profit expense	551,003	612,233	667,311
Operating, selling, general and administrative expenses	1,502,788	1,621,881	1,748,277
Interest expense, net	91,289	102,232	79,302
Total costs and expenses	7,267,198	8,222,204	9,297,328
Earnings Before Income Tax Expense and Extraordinary Gain	82,613	127,339	153,719
Income Tax Expense	31,889	48,516	47,191
Earnings Before Extraordinary Gain	50,724	78,823	106,528
Extraordinary Gain on Debt Redemption (net of tax effect of $14,912, $2,743 and $1,128)	23,324	4,290	1,764
Net Earnings	$ 74,048	$ 83,113	$ 108,292
Net Earnings Per Common Share			
Basic			
Earnings before extraordinary gain	$ .62	$ .96	$ 1.06
Extraordinary gain	.28	.05	.02
Net earnings	$ .90	$ 1.01	$ 1.08
Diluted			
Earnings before extraordinary gain	$ .60	$ .87	$ .97
Extraordinary gain	.23	.04	.01
Net earnings	$ .83	$ .91	$ .98

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Deficit)

(Dollars and Shares in Thousands)	Shares	Par Value	Additional Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Earnings: Unrealized Gains (Losses)	Accumulated Other Comprehensive Earnings: Foreign Currency Translation	Shareholders' Equity (Deficit)
Balance at December 31, 1997	409,923	$41	$ 625,574	$(1,352,057)	$ 9,191	$(4,276)	$(721,527)
Net earnings				74,048			74,048
Other comprehensive earnings:							
Unrealized gain on equity securities (net of $7,293 deferred taxes)					11,408		11,408
Reclassification adjustments for gains included in net earnings (net of $2,649 deferred taxes)					(4,143)		(4,143)
Foreign currency translation						(1,997)	(1,997)
Total other comprehensive earnings (loss)							5,268
Comprehensive earnings							79,316
Balance at December 31, 1998	409,923	41	625,574	(1,278,009)	16,456	(6,273)	(642,211)
Net earnings				83,113			83,113
Other comprehensive earnings:							
Unrealized loss on equity securities (net of ($447) deferred taxes)					(698)		(698)
Reclassification adjustments for gains included in net earnings (net of $2,946 deferred taxes)					(4,607)		(4,607)
Foreign currency translation						4,674	4,674
Total other comprehensive earnings (loss)							(631)
Comprehensive earnings							82,482
Issuance of stock	76		154				154
Reverse stock split	(327,999)	(33)	33				–
Balance at December 31, 1999	82,000	8	625,761	(1,194,896)	11,151	(1,599)	(559,575)
Net earnings				108,292			108,292
Other comprehensive earnings:							
Unrealized gain on equity securities (net of $568 deferred taxes)					888		888
Reclassification adjustments for gains included in net earnings (net of $3,140 deferred taxes)					(4,912)		(4,912)
Foreign currency translation						(3,053)	(3,053)
Total other comprehensive earnings (loss)							(7,077)
Comprehensive earnings							101,215
Issuance of stock	22,768	2	540,464				540,466
Balance at December 31, 2000	104,768	$10	$1,166,225	$(1,086,604)	$ 7,127	$(4,652)	$ 82,106

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in Thousands)	Years Ended December 31 1998	1999	2000
Cash Flows from Operating Activities			
Net earnings	$ 74,048	$ 83,113	$ 108,292
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary gain on debt redemption	(23,324)	(4,290)	(1,764)
Depreciation and amortization of property and equipment	175,086	185,495	219,223
Other amortization	19,611	19,968	20,051
Deferred income taxes	19,190	32,476	28,507
Noncash interest expense	1,725	1,466	1,363
Other noncash (income) expense	2,943	(4,099)	(2,815)
Net loss on property and equipment	9,631	7,955	3,426
Increase in accounts receivable	(22,674)	(36,724)	(13,730)
Decrease (increase) in inventories	11,306	(33,005)	27,651
(Increase) decrease in other assets	(35,330)	3,925	(18)
Increase in trade accounts payable and other liabilities	600	25,595	62,298
Net cash provided by operating activities	232,812	281,875	452,484
Cash Flows from Investing Activities			
Payments for purchase of property and equipment	(380,871)	(428,837)	(300,370)
Proceeds from sale of property and equipment	8,607	63,861	76,874
Proceeds from sale of domestic securities	6,754	7,522	8,016
Acquisition of businesses, net of cash acquired	(32,929)	–	–
Other	1,625	7,219	(13,942)
Net cash used in investing activities	(396,814)	(350,235)	(229,422)
Cash Flows from Financing Activities			
Proceeds from commercial paper and revolving credit facilities	7,231,795	4,872,273	4,269,051
Payments under commercial paper and revolving credit facilities	(7,032,120)	(4,661,427)	(4,752,613)
Proceeds from issuance of long-term debt	96,503	–	–
Principal payments under long-term debt agreements	(154,376)	(147,392)	(240,323)
Proceeds from issuance of convertible quarterly income debt securities	15,000	–	–
Net proceeds from issuance of common stock	–	–	539,690
Increase (decrease) in outstanding checks in excess of cash in bank	11,765	(4,600)	17,497
Other	(4,525)	(750)	(45)
Net cash provided by (used in) financing activities	164,042	58,104	(166,743)
Net Increase (Decrease) In Cash and Cash Equivalents	40	(10,256)	56,319
Cash and Cash Equivalents at Beginning of Year	87,075	87,115	76,859
Cash and Cash Equivalents at End of Year	$ 87,115	$ 76,859	$ 133,178
Related Disclosures for Cash Flow Reporting			
Interest paid, excluding SFAS No.15 Interest	$ (99,240)	$ (117,669)	$ (95,785)
Net income taxes paid	$ (11,721)	$ (16,181)	$ (31,342)
Assets obtained by entering into capital leases	$ 33,643	$ 40,638	$ 26,759

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Years Ended December 31, 1998, 1999 and 2000

1. Accounting Policies

Principles of Consolidation – 7-Eleven, Inc. and its subsidiaries ("the Company") is owned 72.7% by IYG Holding Company (see Note 14), which is jointly owned by Ito-Yokado Co., Ltd. ("IY") and Seven-Eleven Japan Co., Ltd. ("SEJ"). The Company operates more than 5,700 7-Eleven and other convenience stores in the United States and Canada. Area licensees, or their franchisees, and affiliates operate approximately 15,400 additional 7-Eleven convenience stores in certain areas of the United States, in 15 foreign countries and in the U.S. territories of Guam and Puerto Rico.

The consolidated financial statements include the accounts of 7-Eleven, Inc. and its subsidiaries. Intercompany transactions and account balances are eliminated. Prior-year amounts have been reclassified to conform to the current-year presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Merchandise sales and cost of goods sold of stores operated by franchisees are consolidated with the results of Company-operated stores. Merchandise sales of stores operated by franchisees are $3.03 billion, $3.39 billion and $3.68 billion from 2,960, 3,008 and 3,118 stores for the years ended December 31, 1998, 1999 and 2000, respectively.

The gross profit of franchise stores is split between the Company and its franchisees. The franchisees' share of the gross profit of franchise stores generally ranges from 42% to 50% of the merchandise gross profit of the store and is presented as franchisee gross profit expense in the accompanying Consolidated Statements of Earnings. The Company's share of the gross profit of franchise stores is its continuing franchise fee, generally ranging from 50% to 58% of the merchandise gross profit of the store, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services and preparation of financial summaries. In addition, franchisees receive the greater of one cent per gallon sold or 25% of gasoline gross profit as compensation for measuring and reporting deliveries of gasoline, conducting pricing surveys of competitors, changing the price displays and cleaning the service areas.

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Operating Segment – The Company operates in a single operating segment – the operating, franchising and licensing of convenience food stores, primarily under the 7-Eleven name. Revenues from external customers are derived principally from two major product categories – merchandise and gasoline. The Company's merchandise sales are comprised of groceries, beverages, tobacco products, beer/wine, candy/snacks, fresh foods, dairy products, non-food merchandise and services. Services include lottery, ATM and money order service fees/commissions for which there are little, if any, costs included in merchandise cost of goods sold.

Notes To Consolidated Financial Statements (continued)

The Company does not record merchandise sales on the basis of product categories. However, based on the total dollar volume of store purchases, management estimates that the percentages of its convenience store merchandise sales by principal product category for the last three years were as follows:

	Years Ended December 31		
Product Categories	**1998**	**1999**	**2000**
Tobacco Products	23.7%	25.8%	26.4%
Beverages	23.7%	22.9%	22.5%
Beer/Wine	11.3%	10.8%	10.9%
Non-Foods	B.8%	9.2%	9.6%
Candy/Snacks	9.5%	9.4%	9.4%
Food Service	6.0%	5.9%	5.7%
Dairy Products	5.3%	5.0%	4.8%
Baked Goods	4.2%	3.9%	3.8%
Other	4.6%	4.2%	4.1%
Total Product Sales	97.1%	97.1%	97.2%
Services	2.9%	2.9%	2.8%
Total Merchandise Sales	100.0%	100.0%	100.0%

The Company does not rely on any major customers as a source of revenue. Excluding area license royalties, which are included in other income as stated above, the Company's operations are concentrated in the United States and Canada. Approximately 8% of the Company's net sales for the years ended December 31, 1998, 1999 and 2000 are from Canadian operations, and approximately 5% of the Company's long-lived assets for the years ended December 31, 1999 and 2000 are located in Canada.

Other Income – Other income is primarily area license royalties and franchise fee income. The area license royalties include amounts from area license agreements with SEJ of approximately \$53 million, \$56 million and \$58 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Under the present franchise agreements, initial franchise fees are generally calculated based on gross profit experience for the store or market area. These fees cover certain costs including training, an allowance for lodging for the trainees and other costs relating to the franchising of the store. The Company defers the recognition of these fees until its obligations under the agreement are completed. Franchisee fees recognized in earnings were \$11.9 million, \$14.0 million and \$16.4 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Operating, Selling, General and Administrative Expenses ("OSG&A") – Buying and occupancy expenses are included in OSG&A. Advertising costs, also included in OSG&A, generally are charged to expense as incurred and were \$40.1 million, \$39.4 million and \$34.4 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Interest Expense – Interest expense is net of interest income and capitalized interest. Interest income was \$12.0 million, \$11.2 million and \$13.3 million, and capitalized interest was \$2.3 million, \$5.0 million and \$2.6 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Income Taxes – Income taxes are determined using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Cash and Cash Equivalents – The Company considers all highly liquid investment instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents include temporary cash investments of \$8.1 million and \$37.7 million at December 31, 1999 and 2000, respectively, stated at cost, which approximates market.

The Company utilizes a cash management system under which a book cash overdraft exists for the Company's primary disbursement accounts. These overdrafts represent uncleared checks in excess of cash balances in bank accounts at the end of the reporting period. The Company transfers cash on an as-needed basis to fund clearing checks (see Note 7).

Inventories – Inventories are stated at the lower of cost or market. Cost is generally determined by the LIFO method for company-operated stores in the United States and by the FIFO method for stores in Canada.

Depreciation and Amortization – Depreciation of property and equipment is based on the estimated useful lives of these assets using the straight-line method. Acquisition and development costs for significant business systems and related software for internal use are capitalized and are depreciated or amortized on a straight-line basis. Amortization of capital lease assets, improvements to leased properties and favorable leaseholds is based on the remaining terms of the leases or the estimated useful lives, whichever is shorter. The following table summarizes the years over which significant assets are generally depreciated or amortized:

	Years
Buildings	25
Leasehold improvements	3 to 20
Equipment	3 to 10
Software and other intangibles	3 to 7
License royalties and goodwill	20 to 40

Effective August 1999, the Company changed the depreciable lives of all buildings from 20 to 25 years. The effect of the change in estimate decreased depreciation expense by approximately $2.4 million for the year ended December 31, 1999. The change had an immaterial effect on earnings per share for the same period. Had the change in estimate been made at January 1, 1999, depreciation expense would have decreased by approximately $5.9 million for the year ended December 31, 1999.

Foreign and domestic area license royalty intangibles were recorded in 1987 at the fair value of future royalty payments and are being amortized over 20 years using the straight-line method. The 20-year life is less than the estimated lives of the various royalty agreements, the majority of which are perpetual.

Store Closings/Asset Impairment – Provision is made on a current basis for the write-down of identified owned-store closings to their net realizable value. For identified leased-store closings, leasehold improvements are written down to their net realizable value and a provision is made on a current basis if anticipated expenses are in excess of expected sublease rental income. The Company's long-lived assets, including goodwill, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Insurance – The Company has established insurance programs to cover certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, employee healthcare, comprehensive general and auto liability. Third-party insurance coverage is obtained for property and casualty exposures above predetermined deductibles as well as those risks required to be insured by law or contract. Provisions for losses expected under the insurance programs are recorded based on independent actuarial estimates of the aggregate liabilities for claims incurred.

Environmental – Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are expensed by the Company. Expenditures that extend the life of the related property or prevent future environmental contamination are capitalized. The Company determines its liability on a site-by-site basis and records a liability when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted.

A portion of the environmental expenditures incurred for corrective action at gasoline sites is eligible for reimbursement under state trust funds and reimbursement programs. A related receivable is recorded for estimated probable refunds. The receivable is discounted if the amount relates to remediation activities that have already been completed. A receivable is also recorded to reflect estimated probable reimbursement from other parties (see Note 13).

2. Accounts Receivable

(Dollars in Thousands)	December 31 1999	2000
Trade accounts receivable	$ 84,770	$ 92,149
Franchisee accounts receivable	71,756	66,980
Environmental cost reimbursements – see Note 13	11,981	8,651
SEJ royalty receivable	4,522	4,649
Other accounts receivable	12,254	22,022
	185,283	194,451
Allowance for doubtful accounts	(6,244)	(6,941)
	$179,039	$187,510

3. Inventories

(Dollars in Thousands)	December 31 1999	2000
Merchandise	$ 86,976	$ 78,415
Gasoline	47,074	28,454
	$134,050	$106,869

Inventories stated on the LIFO basis that are included in inventories in the accompanying Consolidated Balance Sheets were $60.5 million and $52.5 million for merchandise and $40.5 million and $21.7 million for gasoline at December 31, 1999 and 2000, respectively. These amounts are less than replacement cost by $37.2 million and $37.8 million for merchandise and $7.1 million and $11.1 million for gasoline at December 31, 1999 and 2000, respectively.

At December 31, 2000, certain inventory quantities were reduced resulting in a liquidation of LIFO inventory layers recorded at costs that were lower than the costs of current purchases. The effect of this reduction was a decrease in cost of goods sold of $5.8 million.

4. Other Current Assets

(Dollars in Thousands)	December 31 1999	2000
Prepaid expenses	$ 29,134	$ 33,397
Deferred tax assets – see Note 16	50,287	50,314
Advances for lottery and other tickets	27,789	28,173
Other	8,118	911
	$115,328	$112,795

5. Property and Equipment

(Dollars in Thousands)	December 31 1999	2000
Cost:		
Land	$ 495,598	$ 497,300
Buildings	419,288	426,133
Leaseholds	1,172,791	1,272,422
Equipment	1,113,561	1,158,028
Software	186,315	242,792
Construction in process	90,951	56,833
	3,478,504	3,653,508
Accumulated depreciation and amortization (includes $47,415 and $78,483 related to software)	(1,597,984)	(1,726,713)
	$1,880,520	$1,926,795

6. Other Assets

(Dollars in Thousands)	December 31 1999	2000
SEJ license royalty intangible (net of accumulated amortization of $197,049 and $213,065)	$121,451	$105,435
Other license royalty intangibles (net of accumulated amortization of $35,095 and $37,931)	21,509	18,673
Environmental cost reimbursements – see Note 13	45,046	45,433
Goodwill (net of accumulated amortization of $1,159 and $1,920)	28,137	29,205
Investments in available-for-sale domestic securities (no cost basis)	18,313	11,717
Other	65,414	64,678
	$299,870	$275,141

7. Accrued Expenses and Other Liabilities

(Dollars in Thousands)	December 31 1999	2000
Insurance	$ 31,773	$ 30,043
Compensation	63,188	57,295
Taxes	55,577	56,502
Lotto, lottery and other tickets	40,756	43,511
Other accounts payable	26,132	39,730
Environmental costs – see Note 13	20,019	18,953
Profit sharing – see Note 12	16,491	19,105
Interest	6,243	10,746
Book overdrafts payable – see Note 1	55,635	73,132
Other current liabilities	85,402	96,752
	$401,216	$445,769

For the years ended December 31, 1998 and 1999, the Company accrued termination benefits of $7.6 million and $4.7 million for approximately 120 and 40 employees, respectively. There have been no significant changes to the initial accruals. The cost of the termination benefits was recorded in OSG&A expense.

8. Debt

(Dollars in Thousands)	December 31 1999	2000
Bank Debt Term Loans	$ 112,500	$ –
Bank Debt revolving credit facility	250,000	–
Commercial paper	600,000	395,554
5% First Priority Senior Subordinated Debentures due 2003	287,152	275,187
4½% Second Priority Senior Subordinated Debentures (Series A) due 2004	133,948	128,935
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	21,849	21,108
Yen Loans	177,223	127,237
7½% Cityplace Term Loan due 2005	267,448	225,509
Capital lease obligations	156,933	161,619
Other	3,179	2,329
	2,010,232	1,337,478
Less long-term debt due within one year	207,413	76,156
	$1,802,819	$1,261,322

Bank Debt – As of January 25, 2001, the Company is obligated to a group of lenders under a new, $200 million unsecured revolving credit agreement ("Credit Agreement"). The Credit Agreement replaces an unsecured credit agreement that included a $225 million term loan and a $400 million revolving credit facility. The term loan was repaid in March 2000 with proceeds from the sale of common stock in a private placement transaction with IYG Holding Company (see Note 14).

The Credit Agreement includes a sub-limit of $150 million for letters of credit. Upon expiration of the revolving credit facility in January 2006, all the then-outstanding letters of credit must expire and may need to be replaced, and all other amounts then outstanding will be due and payable in full. At December 31, 2000, outstanding letters of credit under the previous facility totaled $64.0 million.

Notes To Consolidated Financial Statements (continued)

Interest on the borrowings under the revolving credit facility is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus a margin determined by the Company's credit ratings for senior long-term indebtedness. The applicable margin as of January 25, 2001, was 0.475%. The weighted-average interest rates were 6.6% on the term loan and 6.8% on borrowings outstanding under the previous revolving credit facility at December 31, 1999.

A facility fee of 0.15% per year is charged on the aggregate amount of the revolving credit facility. In addition, if the average outstanding balance of the facility is greater than or equal to two-thirds of the available borrowings under the facility, a utilization fee is charged on the average outstanding principal amount of loans and the undrawn face amount of the letters of credit. The utilization fee is also tied to the Company's senior long-term indebtedness as described above and was 0.375% as of January 25, 2001. All fees are paid quarterly.

The Credit Agreement contains various financial and operating covenants which require, among other things, the maintenance of certain financial ratios including interest and rent coverage and consolidated total indebtedness to earnings before interest, income taxes, depreciation and amortization. The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur or guarantee indebtedness or other liabilities other than under the Credit Agreement, (b) limit the Company's ability to engage in asset sales and sale/leaseback transactions, (c) limit the types of investments the Company can make and (d) limit the Company's ability to pay cash dividends or redeem or prepay principal and interest on any subordinated debt.

Commercial Paper – The outstanding balance on the Company's commercial paper facility was reduced by approximately $177 million in March 2000 with a portion of the proceeds from the private placement transaction (see Note 14). As of December 31, 1999 and 2000, the availability of borrowings under the Company's commercial paper facility was $650 million. At December 31, 1999 and 2000, $600 million and $395.6 million of the respective $634.4 million and $395.6 million outstanding principal amounts, net of discount, was classified as long-term debt since the Company intends to maintain at least these amounts outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. IY has agreed to continue its guarantee of all commercial paper issued through 2002. While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Company and IY have entered into an agreement by which the Company is required to reimburse IY subject to certain restrictions in the Credit Agreement, which principally specify that no reimbursements can be made until one year after repayment in full of the debt and termination of the Credit Agreement. The weighted-average interest rate on commercial paper borrowings outstanding at December 31, 1999 and 2000, respectively, was 6.1% and 6.6%.

Debentures – The Debentures are accounted for in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," and were recorded at an amount equal to the future undiscounted cash payments, both principal and interest ("SFAS No. 15 Interest"). Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will be charged against the recorded amount of such securities. Interest on all of the Debentures is payable in cash semiannually on June 15 and December 15 of each year.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003 ("5% Debentures"), had an outstanding principal balance of $239.3 million at December 31, 2000, and are redeemable at any time at the Company's option at 100% of the principal amount.

The Second Priority Senior Subordinated Debentures were issued in three series, and each series is redeemable at any time at the Company's option at 100% of the principal amount and are described as follows:

- 4½% Series A Debentures, due June 15, 2004 ("4½% Debentures"), had an outstanding principal balance of $111.4 million at December 31, 2000.
- 4% Series B Debentures, due June 15, 2004 ("4% Debentures"), had an outstanding principal balance of $18.5 million at December 31, 2000.

In March 1998, the Company issued $80 million principal amount of Convertible Quarterly Income Debt Securities due 2013 ("1998 QUIDS") to IY and SEJ (see Note 9). The Company utilized a portion of the proceeds from the 1998 QUIDS to redeem $21.8 million principal amount of its 12% Series C Debentures due 2009 ("12% Debentures") and to purchase $15.7 million principal amount of its 5% Debentures, $7.8 million principal amount of its 4½% Debentures and $250,000 principal amount of its 4% Debentures. The partial purchases of these debentures, together with the redemption of the 12% Debentures, resulted in an extraordinary gain of $23.3 million (net of current tax effect of $14.9 million) in 1998 as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

In addition, the Company purchased $15 million principal amount of its 5% Debentures in January 1999 and $4.4 million principal amount of its 4½% Debentures in February 1999 with a portion of the proceeds of the 1998 QUIDS. These partial purchases resulted in an extraordinary gain of $4.3 million (net of current tax effect of $2.7 million) in 1999 as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

The Debentures contain certain covenants that, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the Debentures at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The First and Second Priority Senior Subordinated Debentures are subordinate to the borrowings outstanding under the Credit Agreement and to previously outstanding mortgages and notes that are either backed by specific collateral or are general unsecured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

Yen Loans – In March 1988, the Company monetized its future royalty payments from SEJ, its area licensee in Japan, through a loan that is nonrecourse to the Company as to principal and interest ("1988 Yen Loan"). The original amount of the yen-denominated debt was 41 billion yen (approximately $327 million at the exchange rate in March 1988) and is collateralized by the Japanese trademarks and a pledge of the future royalty payments. At December 31, 2000, the outstanding balance on this loan was 3.85 billion yen (approximately $30.7 million at the March 1988 exchange rate). Payment of the debt is required no later than March

Notes To Consolidated Financial Statements (continued)

2006 through future royalties from SEJ. The Company believes the 1988 Yen Loan will be repaid as early as the third quarter of 2001. One year following the final repayment of the 1988 Yen Loan, royalty payments from SEJ will be reduced by approximately 70% in accordance with the terms of the license agreement. The interest rate was 3.1% as of December 31, 2000 (see Note 10).

In April 1998, funding occurred on an additional yen-denominated loan ("1998 Yen Loan") for 12.5 billion yen or $96.5 million of proceeds. The 1998 Yen Loan has an interest rate of 2.325%, and both principal and interest will be repaid from the Seven-Eleven Japan area license royalty income after the 1988 Yen Loan has been retired, which is currently expected in the third quarter of 2001. Both principal and interest of the loan are nonrecourse to the Company. Proceeds of the loan were designated for general corporate purposes (see Note 10).

Cityplace Term Loan – Cityplace Center East Corporation ("CCEC"), a subsidiary of the Company, constructed the headquarters tower, parking garages and related facilities of the Cityplace Center development and is currently obligated to The Sanwa Bank, Limited, New York Branch ("Sanwa"), which has a lien on the property financed. The debt with Sanwa has monthly payments of principal and interest based on a 25-year amortization at 7.5%, with the remaining principal due on March 1, 2005 (the "Cityplace Term Loan"). In December 2000, the Company purchased and retired approximately $36.1 million of the outstanding principal for $33.2 million, resulting in an extraordinary gain of $1.8 million (net of current tax effect of $1.1 million).

The Company is occupying part of the building as its corporate headquarters and the balance is leased to third parties. As additional consideration through the extended term of the debt, CCEC will pay to Sanwa an amount that it receives from the Company which is equal to the net sublease income that the Company receives on the property and 60% of the proceeds, less $275 million and permitted costs, upon a sale or refinancing of the building.

Maturities – Long-term debt maturities assume the continuance of the commercial paper program and the IY guarantee. The maturities, which include capital lease obligations as well as SFAS No. 15 Interest accounted for in the recorded amount of the Debentures, are as follows (dollars in thousands):

2001	$ 76,156
2002	79,115
2003	285,719
2004	163,326
2005	225,961
Thereafter	507,201
	$1,337,478

9. Convertible Quarterly Income Debt Securities

In November 1995, the Company issued $300 million principal amount of Convertible Quarterly Income Debt Securities due 2010 ("1995 QUIDS") to IY and SEJ. The 1995 QUIDS have an interest rate of 4.5% and give the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The holder of the 1995 QUIDS can convert the debt anytime at a rate of $20.80 per share of the Company's common stock. The conversion rate represents a premium to the market value of the Company's common stock at the time of issuance of the 1995 QUIDS. As of December 31, 2000, no shares had been issued as a result of debt conversion.

In February 1998, the Company issued $80 million principal amount of 1998 QUIDS, which have a 15-year life, no amortization and an interest rate of 4.5%. The instrument gives the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The debt mandatorily converts into 6,501,686 shares of the Company's common stock if (a) the Company's stock trades above $12.30 for 20 of 30 consecutive trading days after the fifth

anniversary of issuance, (b) the Company's stock trades above $14.77 for 20 of 30 consecutive trading days after the third anniversary of issuance and before the fifth anniversary or (c) the Company's stock closes at or above $12.30 on the last trading day prior to maturity. A portion of the proceeds from the 1998 QUIDS was used to redeem the Company's 12% Debentures at par and to fund the partial purchases of its other Debentures (see Note 8). The 1998 QUIDS, together with the 1995 QUIDS (collectively, "Convertible Debt"), are subordinate to all existing debt.

The financial statements include interest payable of $723,000 as of December 31, 1999 and 2000, as well as interest expense of $16.8 million for the year ended December 31, 1998, and $17.4 million for the years ended December 31, 1999 and 2000, related to the Convertible Debt. The Company has not deferred any interest payments in connection with the Convertible Debt.

10. Financial Instruments

Fair Value – The disclosure of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies as indicated below.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of accrued expenses and other liabilities.

The carrying amounts and estimated fair values of other financial instruments at December 31, 2000, are listed in the following table:

(Dollars in Thousands)	Carrying Amount	Estimated Fair Value
Commercial Paper	$395,554	$395,554
Debentures	425,231	321,473
Yen Loans	127,237	148,998
Cityplace Term Loan	225,509	227,657
Convertible Debt	380,000	–
Interest Rate Swap	1,965	2,010

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

- Commercial Paper borrowings are sold at market interest rates and have an average remaining maturity of less than 56 days. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The guarantee of the commercial paper by IY is an integral part of the estimated fair value of the commercial paper borrowings.
- The fair value of the Debentures is estimated based on December 31, 2000, bid prices obtained from investment banking firms where traders regularly make a market for these financial instruments. The carrying amount of the Debentures includes $56.0 million of SFAS No. 15 Interest.
- The fair value of the Yen Loans is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.
- The fair value of the Cityplace Term Loan is estimated by calculating the present value of the future cash flows at a current interest rate for a similar financial instrument.
- It is not practicable, without incurring excessive costs, to estimate the fair value of the Convertible Debt (see Note 9) at December 31, 2000. The fair value would be the sum of the fair values assigned to both an interest rate and an equity component of the debt by a valuation firm.
- The fair value of the Interest Rate Swap is estimated based on December 31, 2000, quoted market prices of the same or similar instruments and represents the estimated amount the Company would pay if the Company chose to terminate the swap as of December 31, 2000.

Notes To Consolidated Financial Statements (continued)

Derivatives – The Company has completed its review of derivative instruments and other contracts that might be considered or contain derivative instruments in connection with its adoption of the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") as of January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities.

The Company uses derivative financial instruments to reduce its exposure to market risk resulting from fluctuations in foreign exchange rates and interest rates. The Company is party to a $250 million notional principal amount interest rate swap agreement. The Company currently pays a fixed interest rate of 6.096% on the $250 million notional amount until February 2004. A major financial institution, as counterparty to the agreement, pays the Company interest at a floating rate based on three-month LIBOR on the notional amount during the term of the agreement. Interest payments are made quarterly by both parties. The interest rate swap has been accounted for as a hedge and, accordingly, any difference between amounts paid and received is recorded as interest expense. The impact on net interest expense as a result of this agreement was nominally favorable for the years ended December 31, 1998, 1999 and 2000. The Company is at risk of loss from this swap agreement in the event of nonperformance by the counterparty.

Under SFAS No. 133, the $250 million interest rate swap will be treated as a cash flow hedge of the Company's interest rate exposure in connection with its commercial paper program. Upon adoption of SFAS No. 133, the Company's transitional adjustment was to record a liability of $2.0 million representing the fair value of the interest rate swap as of January 1, 2001, with the offset of $1.2 million (net of deferred taxes of $800,000) to Accumulated Other Comprehensive Earnings. The Company will adjust the carrying value of the interest rate swap to fair value at each reporting date with a corresponding offset to Accumulated Other Comprehensive Earnings. Additionally, the Company will review the effectiveness of the interest rate swap at each reporting date and will recognize the ineffective portion of the interest rate swap in earnings for the period reported.

In addition, upon adoption of SFAS No. 133, the Company transferred January 1, 2001, asset and liability balances of $2.4 million and ($4.3 million), respectively, related to the interest rate swap to Accumulated Other Comprehensive Earnings. These balances will continue to be amortized into earnings as an adjustment to interest expense through February 2004.

As discussed in Note 8, the Company uses its SEJ royalty receipts to service the monthly principal and interest payments on its yen loans. This arrangement provides an economic hedge for the Company against fluctuations in the Japanese yen to U.S. dollar exchange rate. As a result of this hedge, the 1988 and 1998 yen loans and related interest expense and payable have been recorded in the Company's consolidated financial statements utilizing the Japanese yen to U.S. dollar exchange rates in effect at the date of the borrowings (125.35 for the 1988 Yen Loan and 129.53 for the 1998 Yen Loan). Additionally, the SEJ royalty has been recorded at the 125.35 exchange rate as it has been utilized to service the 1988 Yen Loan.

Although SFAS No. 133 nullified the hedge accounting treatment the Company was applying to the SEJ royalty and yen loans, the Company's economic hedge against changes in the Japanese yen to U.S. dollar exchange rate remains in place. Upon adoption of SFAS No. 133, the Company converted the yen loans, related interest payable and the SEJ royalty receivable to reflect the Japanese yen to U.S. dollar exchange rate quoted for January 1, 2001 (114.35 yen to one U.S. dollar). As a result, the Company's transitional adjustment increased the yen loans, related interest payable

and SEJ royalty receivable by $16.1 million, with the offsetting reduction of $9.8 million (net of deferred taxes of $6.3 million) to Accumulated Other Comprehensive Earnings. The transitional adjustment to Accumulated Other Comprehensive Earnings will be amortized into earnings over the remaining term of the yen loans. Prospectively, the Company will adjust the balance of the yen loans at each reporting date to reflect the current Japanese yen to U.S. dollar exchange rate, and the resultant foreign currency exchange gain or loss will be recognized in earnings. In addition, the Company will record the SEJ royalty and interest expense on the yen loans at the average Japanese yen to U.S. dollar exchange rate for the respective period.

11. Leases

Leases – Certain property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from one to ten years. The leases do not contain restrictions that have a material effect on the Company's operations.

In 1999, the Company entered into a lease facility that provides up to $100 million of off-balance-sheet financing to be used for the construction of new stores. A trust (the lessor), funded primarily by a group of senior lenders, will acquire land and undertake construction projects with the Company acting as the construction agent. During the construction period following the lease commencement date, interim rent will be added to the amount funded for land and construction. Rental payments begin immediately following the end of the construction period. Rental payments are based on interest incurred by the trust on amounts funded under the facility; such interest is based on LIBOR plus 2.075%. As of December 31, 2000, the trust had funded $73.0 million from this facility. The lease has a maximum lease term of 66 months. In January 2001, the Company entered into an additional lease facility that will provide up to $100 million of off-balance-sheet financing with essentially the same terms and covenants as the facility entered into in 1999. Rental payments are based on interest incurred by the trust on amounts funded under the facility; such interest is based on LIBOR plus 1.13%. As of January 31, 2001, the trust had not drawn from this facility. The facility is to be used for the construction of new stores.

Under either agreement, after the initial lease term has expired, the Company has the option of (a) extending the lease for an additional period subject to the approval of the trust, (b) purchasing the property for an amount approximating the trust's interest in the property, or (c) to vacate the property, arranging for the sale to a third party and pay the trust the net proceeds from the sale (such payment not to exceed the trust's interest in the property with any excess being returned to the Company). Payment of any deficiency of the sale proceeds from approximately 84% of aggregate cost is guaranteed by the Company. The lease, which is accounted for as an operating lease, contains financial and operating covenants similar to those under the Company's Credit Agreement (see Note 8).

In 1999 and 2000, the Company entered into sale-leaseback agreements whereby land, buildings and associated real and personal property improvements were sold and leased back by the Company. The Company received net proceeds of $57.3 million and $71.9 million on the sale of 30 and 33 stores, respectively. The gains on the sale of the properties of approximately $10 million and $12 million, respectively, were deferred and will be recognized on a straight-line basis over the initial term of the leases.

Notes To Consolidated Financial Statements (continued)

Under the terms of the agreements, the Company will make rental payments over terms ranging from 16 to 18 1/2 years. At the expiration of the initial lease term, the Company will have the option of renewing the lease for up to six renewal terms of up to five years per renewal term at predetermined increases. The leases do not contain purchase options or guaranteed residual values; however, the Company does have the right of first refusal after the first five years of the initial lease term with respect to any offers to purchase the properties which the lessor receives. The leases are being accounted for as operating leases.

The Company is party to a $115 million master lease facility used primarily for electronic point-of-sale equipment and software associated with the Company's retail information system. As of December 31, 1999, the Company had received all of the available funding under the lease.

Individual leases under this master lease facility have base terms that will expire at various times during the period September 30, 2002, through September 30, 2004, at which time the Company has an option to cancel all leases under this facility by purchasing the equipment or arranging its sale to a third party. The Company has an option to renew the leases semiannually until five years after the beginning of the individual leases. At each semiannual renewal date, the Company has the option to purchase the equipment and end the lease. Individual leases may be extended beyond five years through an extended rental agreement.

The composition of capital leases reflected as property and equipment in the Consolidated Balance Sheets is as follows:

	December 31	
(Dollars in Thousands)	1999	2000
Buildings	$164,487	$181,062
Equipment	6,843	4,958
Software	40,813	40,813
	212,143	226,833
Accumulated amortization	(77,503)	(82,362)
	$134,640	$144,471

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(Dollars in Thousands)	Capital Leases	Operating Leases
2001	$ 35,962	$ 167,689
2002	30,513	151,118
2003	22,616	131,023
2004	22,134	105,147
2005	21,362	79,255
Thereafter	145,496	510,552
Future minimum lease payments	278,083	$1,144,784
Estimated executory costs	(16)	
Amount representing imputed interest	(116,448)	
Present value of future minimum lease payments	$ 161,619	

Minimum noncancelable sublease rental income to be received in the future, which is not included above as an offset to future payments, totals $9.8 million for capital leases and $10.4 million for operating leases.

Rent expense on operating leases for the years ended December 31, 1998, 1999 and 2000, totaled $143.5 million, $164.6 million and $195.8 million, respectively, including contingent rent expense of $10.4 million, $11.5 million and $12.4 million, but reduced by sublease rent income of $5.9 million, $4.9 million and $3.8 million. Contingent rent expense on capital leases for the years ended December 31, 1998, 1999 and 2000, was $1.8 million, $1.5 million and $1.6 million, respectively. Contingent rent expense is generally based on sales levels or changes in the Consumer Price Index.

Leases with the Savings and Profit Sharing Plan – At December 31, 2000, the 7-Eleven, Inc. Employees' Savings and Profit Sharing Plan ("Savings and Profit Sharing Plan") owned one store leased to the Company under a capital lease and 548 stores leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the inception date of each lease. In addition, in 1998, 1999 and 2000, there were 99, 28 and 24 leases, respectively, that either expired or, as a result of properties that were sold by the Savings and Profit Sharing Plan to third parties, were canceled or assigned to the new owner. Also, the Company exercised its right of first refusal and five, four and 19 properties were sold to the Company by the Savings and Profit Sharing Plan in 1998, 1999 and 2000, respectively, for an aggregate purchase price of $2.8 million, $1.2 million and $9.2 million in the respective years.

Included in the consolidated financial statements are the following amounts related to leases with the Savings and Profit Sharing Plan:

(Dollars in Thousands)	December 31 1999	2000
Buildings (net of accumulated amortization of $39 and $42)	$40	$37
Capital lease obligations (net of current portion of $44 and $51)	$34	$24

(Dollars in Thousands)	Years Ended December 31 1998	1999	2000
Rent expense under operating leases and amortization of capital lease assets	$19,987	$18,166	$18,299
Imputed interest expense on capital lease obligations	$ 59	$ 5	$ 4
Capital lease principal payments included in principal payments under long-term debt agreements	$ 594	$ 3	$ 4

12. Benefit Plans

Profit Sharing Plans – The Company maintains the Savings and Profit Sharing Plan for its U.S. employees and the 7-Eleven Canada, Inc. Pension Plan for its Canadian employees. These plans provide retirement benefits to eligible employees.

Contributions to the Savings and Profit Sharing Plan, a 401(k) defined contribution plan, are made by both the participants and 7-Eleven. 7-Eleven contributes the greater of approximately 10% of its net earnings, as defined, or an amount determined by the Company. The contribution by the Company is generally allocated to the participants on the basis of their individual contribution and years of participation in the Savings and Profit Sharing Plan. The provisions of the 7-Eleven Canada, Inc. Pension Plan are similar to those of the Savings and Profit Sharing Plan. Total contributions to these plans for the years ended December 31, 1998, 1999 and 2000 were $13.4 million, $13.6 million and $16.0 million, respectively, and are included in OSG&A.

Postretirement Benefits – The Company's group insurance plan (the "Insurance Plan") provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered, as adjusted for actual claims experience. All other future costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

The Company amortizes cumulative unrecognized gains and losses in excess of 10% of the accumulated postretirement benefit obligation ("APBO") over the average remaining service period of the plan's participants. In 2000, the Company changed this method of amortization such that, if cumulative unrecognized gains or losses at the beginning of a period exceed 40% of APBO, the entire unrecognized gain or loss will be amortized over a three-year period beginning

in the subsequent year. The Company believes this new method of amortization results in a more accurate reflection of its postretirement benefit obligation by providing for more immediate recognition of gains and losses. Because the 40% threshold was first exceeded at the beginning of 2000, the accelerated amortization method will not be applied until 2001. This change in accounting principle had no impact on the Company's 2000 results of operations and would have had no impact on prior years' results of operations had it been adopted in an earlier period.

The following information on the Company's Insurance Plan is provided:

(Dollars in Thousands)	December 31 1999	December 31 2000
Change in Benefit Obligation		
Net benefit obligation at beginning of year	$ 22,914	$ 19,830
Service cost	658	559
Interest cost	1,541	1,530
Plan participants' contributions	2,479	3,232
Actuarial gain	(3,020)	(287)
Gross benefits paid	(4,742)	(4,686)
Net benefit obligation at end of year	$ 19,830	$ 20,178
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contributions	2,263	1,454
Plan participants' contributions	2,479	3,232
Gross benefits paid	(4,742)	(4,686)
Fair value of plan assets at end of year	$ –	$ –
Funded status at end of year	$(19,830)	$(20,178)
Unrecognized net actuarial gain	(8,892)	(8,488)
Accrued benefit costs	$(28,722)	$(28,666)

(Dollars in Thousands)	Years Ended December 31 1998	1999	2000
Components of Net Periodic Benefit Cost			
Service cost	$ 536	$ 658	$ 559
Interest cost	1,523	1,541	1,530
Amortization of actuarial gain	(560)	(398)	(691)
Net periodic benefit cost	$1,499	$1,801	$1,398
Weighted-Average Assumptions Used			
Discount rate	6.75%	7.75%	7.75%
Health care cost trend on covered charges:			
1999 trend	8.00%	N/A	N/A
2000 trend	7.00%	7.00%	N/A
2001 trend	6.00%	6.00%	12.00%
Ultimate trend	6.00%	6.00%	6.00%
Ultimate trend reached in	2001	2001	2006

There is no effect of a one-percentage-point increase or decrease in assumed health care cost trend rates on either the total service and interest cost components or the postretirement benefit obligation for the years ended December 31, 1998, 1999 and 2000, as the Company contributes a fixed dollar amount.

Stock Incentive Plan – The 1995 Stock Incentive Plan (the "Stock Incentive Plan") provides for the granting of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units, bonus stock and other forms of stock-based awards and authorizes the issuance of up to 8.2 million shares over a ten-year period to certain key employees and officers of the Company. All options granted in 1998, 1999 and 2000 were granted at an exercise price that was equal to the fair market value on the date of grant. The options granted vest in five equal installments beginning one year after grant date with possible acceleration thereafter based on certain improvements in the price of the Company's common stock. Vested options are exercisable within ten years of the date granted.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the options granted: for each year presented, expected life of five years and no dividend yields, combined with risk-free interest rates of 4.50%, 6.19% and 6.72% in 1998, 1999 and 2000, respectively, and expected volatility of 61.76%, 62.95% and 67.76% in 1998, 1999 and 2000, respectively.

A summary of the status of the Stock Incentive Plan as of December 31, 1998, 1999 and 2000, and changes during the years ending on those dates, is presented below:

	1998		1999		2000	
Fixed Options	**Shares (000's)**	**Weighted-Average Exercise Price**	**Shares (000's)**	**Weighted-Average Exercise Price**	**Shares (000's)**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	2,100	$14.45	2,686	$13.22	3,094	$12.13
Granted	672	9.53	773	9.38	2,063	18.97
Exercised	–	-	–	-	(19)	13.52
Forfeited	(86)	14.35	(365)	14.36	(247)	13.27
Outstanding at end of year	2,686	13.22	3,094	12.13	4,891	14.95
Options exercisable at year-end	809	15.04	1,129	14.21	1,845	13.99
Weighted-average fair value of options granted during the year	$5.37		$5.53		$11.77	

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Options Outstanding at 12/31/00 (000's)**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Options Exercisable at 12/31/00 (000's)**	**Weighted-Average Exercise Price**
$ 9.38 – $ 9.53	1,311	8.21	$ 9.45	397	$ 9.47
12.35 – 13.38	518	6.84	12.36	310	12.35
15.00 – 15.94	1,080	5.23	15.45	972	15.50
19.00 – 19.06	1,982	8.95	19.00	166	19.00
9.38 - 19.06	4,891	7.71	14.95	1,845	13.99

Notes To Consolidated Financial Statements (continued)

The Company is accounting for the Stock Incentive Plan for employees under the provisions of APB No. 25 and, accordingly, no compensation cost has been recognized. If compensation cost had been determined based on the fair value at the grant date for awards under this plan consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended December 31, 1998, 1999 and 2000, would have been reduced to the pro forma amounts indicated in the table below:

(Dollars in Thousands, Except Per-Share Data)	1998	1999	2000
Net earnings:			
As reported	$74,048	$83,113	$108,292
Pro forma	72,017	80,819	103,653
Earnings per common share:			
As reported:			
Basic	$ .90	$ 1.01	$ 1.08
Diluted	.83	.91	.98
Pro forma:			
Basic	$ .88	$ .99	$ 1.04
Diluted	.81	.89	.94

13. Commitments and Contingencies

McLane Company, Inc. – The Company has a ten-year service agreement with McLane Company, Inc. ("McLane") under which McLane is making its distribution services available to 7-Eleven stores in the United States. The agreement expires in November 2002. Upon signing the service agreement, the Company received a $9.5 million transitional payment that is being amortized to cost of goods sold over the life of the agreement. If the Company does not fulfill its obligation to McLane during this time period, the Company must reimburse McLane on a pro-rata basis for a portion of the transitional payment. The Company has exceeded the minimum annual purchases each year and expects to exceed the minimum required purchase levels in future years.

Citgo Petroleum Corporation – The Company has a 20-year product purchase agreement with Citgo Petroleum Corporation ("Citgo") to buy specified quantities of gasoline at market prices. The agreement expires September 2006. The market prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases each year and expects to exceed the minimum required annual purchase levels in future years.

Environmental – In December 1988, the Company closed its chemical manufacturing facility in New Jersey. The Company is required to conduct environmental remediation at the facility, including groundwater monitoring and treatment for a projected 15-year period, which commenced in 1998. The Company has recorded undiscounted liabilities representing its best estimates of the remaining clean-up costs of $7.3 million and $6.3 million at December 31, 1999 and 2000, respectively. Of this amount, $4.4 million and $4.0 million, respectively, are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities for the respective years.

In 1991, the Company and the former owner of the facility entered into a settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. Based on the terms of the settlement agreement and the financial resources of the former owner, the Company has recorded receivable amounts of $4.3 million and $3.8 million at December 31, 1999 and 2000, respectively. Of this amount, $2.5 million and $2.4 million, respectively, are included in other assets and the remainder is included in accounts receivable.

Additionally, the Company accrues for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at its existing and previously operated gasoline store sites where releases of regulated substances have been detected. At December 31, 1999 and 2000, respectively, the Company's estimated undiscounted liability for these sites was $33.4 million and $27.3 million, of which $16.3 million and $10.7 million are included in deferred credits and other liabilities and the remainder is included in accrued expenses and other liabilities. These estimates are based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remediation work. The Company anticipates that substantially all of the future remediotion costs for detected releases at these sites as of December 31, 2000, will be incurred within the next four or five years.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. Accordingly, at December 31, 1999 and 2000, the Company has recorded net receivable amounts of $52.8 million and $50.3 million for the estimated probable state reimbursements, of which $42.5 million and $43.0 million, respectively, are included in other assets and the remainder in accounts receivable. The net receivable amount was increased in 1999 by approximately $14 million as a result of legislative changes in California, which have expanded and extended that state's reimbursement program. In assessing the probability of state reimbursements, the Company takes into consideration each state's fund balance, revenue sources, existing claim backlog, status of clean-up activity and claim ranking systems. As a result of these assessments, the recorded receivable amounts in other assets are net of allowances of $8.1 million and $7.7 million for 1999 and 2000, respectively.

While there is no assurance of the timing of the receipt of state reimbursement funds, based on the Company's experience, the Company expects to receive the majority of state reimbursement funds, except from California, within one to three years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed. The Company estimates that it will receive reimbursement of most of its identified remediation expenses in California, although it may take one to ten years to receive those reimbursement funds. As a result of the timing in receiving reimbursement funds from the various states, the portion of the recorded receivable amounts related to remedial activities which have already been completed has been discounted at approximately 6.4% in 1999 and 5.1% in 2000 to reflect present values. Thus, the 1999 ond 2000 recorded receivable amounts are net of present value discounts of $15.0 million and $11.4 million, respectively.

The estimated future remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

14. Equity Transactions

On March 16, 2000, the Company issued 22,736,842 shares of common stock at $23.75 per share to IYG Holding Company in a private placement transaction, which increased their ownership in the Company to 72.7%. The net proceeds of $539.4 million were used to repay the outstanding balance on the Company's bank term loan of $112.5 million and to reduce the Company's revolving credit facility by approximately $250 million and commercial paper facility by approximately $177 million (see Note 8).

In addition to the private placement, the Company's shareholders approved a reverse stock split of one share of common for five shares of common, which was effective May 1, 2000. Accordingly, all references to share or per-share data in the accompanying consolidated financial statements and related notes reflect the reverse stock split.

15. Preferred Stock And Stock Plans

Preferred Stock – The Company has 5 million shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

Stock Purchase Plans – In 1999, the Company adopted noncompensatory stock purchase plans that allow qualified employees and franchisees to acquire shares of the Company's common stock at market value on the open market. The Company is responsible for the payment of all administrative fees for establishing and maintaining the stock purchase plans as well as the payment of all brokerage commissions for the purchase of shares by the plans' independent administrator.

Stock Compensation Plan for Non-Employee Directors – In 1998, the Company established the Stock Compensation Plan for Non-Employee Directors under which up to an aggregate of 240,000 shares of the Company's common stock is authorized to be issued to its non-employee directors. Eligible directors may elect to receive all, none or a portion of their directors' fees in shares of the Company's common stock. During 1999 and 2000, 15,204 and 12,785 shares, respectively, were issued under the plan.

16. Income Taxes

The components of earnings before income tax expense and extraordinary gain are as follows:

(Dollars in Thousands)	Years Ended December 31 1998	1999	2000
Domestic (including royalties of $68,329, $72,947 and $77,119 from area license agreements in foreign countries)	$78,719	$115,588	$142,890
Foreign	3,894	11,751	10,829
	$82,613	$127,339	$153,719

The provision for income tax expense on earnings before extraordinary gain in the accompanying Consolidated Statements of Earnings consists of the following:

(Dollars in Thousands)	Years Ended December 31 1998	1999	2000
Current:			
Federal	$ 1,146	$ 429	$ 520
Foreign	10,753	13,361	13,364
State	800	2,250	4,800
Subtotal	12,699	16,040	18,684
Deferred	19,190	32,476	28,507
Income tax expense on earnings before extraordinary gain	$31,889	$48,516	$47,191

Included in the accompanying Consolidated Statements of Shareholders' Equity (Deficit) at December 31, 1998, 1999 and 2000, respectively, are $10.5 million, $7.1 million and $4.6 million of deferred income taxes provided on unrealized gains on marketable securities.

Reconciliations of income tax expense on earnings before extraordinary gain at the federal statutory rate to the Company's actual income tax expense provided are as follows:

(Dollars in Thousands)	Years Ended December 31 1998	1999	2000
Tax expense at federal statutory rate	$28,915	$44,569	$53,802
Federal income tax settlement	–	–	(12,490)
State income tax expense, net of federal income tax benefit	520	1,463	3,120
Foreign tax rate difference	263	728	(176)
Other	2,191	1,756	2,935
	$31,889	$48,516	$47,191

Significant components of the Company's deferred tax assets and liabilities are as follows:

(Dollars in Thousands)	December 31 1999	2000
Deferred tax assets:		
Compensation and benefits	$ 33,962	$ 30,797
SFAS No. 15 Interest	29,747	22,541
Accrued insurance	29,237	27,047
Accrued liabilities	25,863	26,585
Tax credit carry-forwards	5,722	6,468
Debt issuance costs	4,718	3,660
Other	6,178	7,798
Subtotal	135,427	124,896
Deferred tax liabilities:		
Property and equipment	(86,937)	(112,957)
Area license agreements	(55,754)	(48,402)
Other	(11,695)	(9,102)
Subtotal	(154,386)	(170,461)
Net deferred tax liability	$ (18,959)	$ (45,565)

At December 31, 1999 and 2000, respectively, $69.2 million and $95.9 million of the Company's net deferred tax liability is recorded in deferred credits and other liabilities. The remaining balance is included in other current assets (see Note 4). At December 31, 2000, the Company had approximately $6.5 million of alternative minimum tax credit carry-forwards, which have no expiration date.

17. Earnings Per Common Share

Computations for basic and diluted earnings per share are presented below:

(In Thousands, Except Per-Share Data)	Years Ended December 31 1998	1999	2000
Basic			
Earnings before extraordinary gain	$ 50,724	$ 78,823	$106,528
Earnings on extraordinary gain	23,324	4,290	1,764
Net earnings	$ 74,048	$ 83,113	$108,292
Weighted-average common shares outstanding	81,985	81,994	100,039
Earnings per common share before extraordinary gain	$ .62	$ .96	$ 1.06
Earnings per common share on extraordinary gain	.28	.05	.02
Net earnings per common share	$ .90	$ 1.01	$ 1.08
Diluted			
Earnings before extraordinary gain	$ 50,724	$ 78,823	$106,528
Add interest on convertible quarterly income debt securities, net of tax – see Note 9	10,316	10,761	10,579
Earnings before extraordinary gain plus assumed conversions	61,040	89,584	117,107
Earnings on extraordinary gain	23,324	4,290	1,764
Net earnings plus assumed conversions	$ 84,364	$ 93,874	$118,871
Weighted-average common shares outstanding (Basic)	81,985	81,994	100,039
Add effects of assumed conversions:			
Stock options – see Note 12	24	42	476
Convertible quarterly income debt securities – see Note 9	19,918	20,924	20,924
Weighted-average common shares outstanding plus shares from assumed conversions (Diluted)	101,927	102,960	121,439
Earnings per common share before extraordinary gain	$ .60	$ .87	$ .97
Earnings per common share on extraordinary gain	.23	.04	.01
Net earnings per common share	$ .83	$ .91	$ .98

Notes To Consolidated Financial Statements (continued)

18. Acquisitions

In 1998, the Company purchased 100% of the common stock of Christy's Market, Inc., a Massachusetts company that operated 135 convenience stores in the New England area. The Company also purchased, in 1998, the assets of 20 'red D mart' convenience stores in the South Bend, Indiana, area from MDK Corporation of Goshen, Indiana.

These acquisitions were accounted for under the purchase method of accounting and, accordingly, the results of operations of the acquired businesses have been included in the accompanying consolidated financial statements from their dates of acquisition.

The following information is provided as supplemental cash flow disclosure for the acquisitions of businesses and stores as reported in the Consolidated Statements of Cash Flows for the year ended December 31, 1998 (dollars in thousands):

Fair value of assets acquired	$75,479
Fair value of liabilities assumed	42,478
Cash paid	33,001
Less cash acquired	72
Net cash paid for acquisitions	$32,929

19. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1999 and 2000 is as follows:

	Year Ended December 31, 1999				
(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Merchandise sales	$1,362	$1,585	$1,695	$1,574	$6,216
Gasoline sales	408	504	548	576	2,036
Net sales	1,770	2,089	2,243	2,150	8,252
Merchandise gross profit	452	553	596	541	2,142
Gasoline gross profit	54	60	53	57	224
Gross profit	506	613	649	598	2,366
Income tax expense	1	19	25	4	49
Earnings before extraordinary gain	2	29	38	10	79
Net earnings	6	29	38	10	83
Earnings per common share before extraordinary gain:					
Basic	.03	.35	.46	.13	.96
Diluted	.03	.30	.39	.13	.87

The first quarter includes an extraordinary gain of $4.3 million resulting from the partial purchases of the 5% Debentures and the 4½% Debentures (see Note 8). The third and fourth quarters include income of approximately $10 million and $4 million, respectively, which resulted from environmental legislative changes in California (see Note 13). The fourth quarter includes a termination benefit accrual of $4.7 million (see Note 7).

	Year Ended December 31, 2000				
(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Merchandise sales	$1,509	$1,722	$1,794	$1,607	$6,632
Gasoline sales	604	707	718	685	2,714
Net sales	2,113	2,429	2,512	2,292	9,346
Merchandise gross profit	515	608	624	558	2,305
Gasoline gross profit	51	68	63	57	239
Gross profit	566	676	687	615	2,544
Income tax expense	(11)	24	27	7	47
Earnings before extraordinary gain	15	38	41	13	107
Net earnings	15	38	41	14	108
Earnings per common share before extraordinary gain:					
Basic	.17	.37	.39	.12	1.06
Diluted	.16	.32	.35	.12	.97

The first quarter includes an income tax benefit of $12.5 million, which resulted from the settlement of certain outstanding tax issues relating to audits of the Company's federal income tax returns for the 1992 through 1995 tax years (see Note 16).

The fourth quarter includes an extraordinary gain of $1.8 million resulting from a partial redemption of the Cityplace Term Loan (see Note 8).

Report of Independent Accountants

To the Board of Directors and Shareholders of 7-Eleven, Inc.:

We have audited the accompanying consolidated balance sheets of 7-Eleven, Inc. and Subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of earnings, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of 7-Eleven, Inc. and Subsidiaries as of December 31, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Dallas, Texas
February 1, 2001

Directors and Officers

Directors

Masatoshi Ito
Chairman of the Board

Toshifumi Suzuki
Vice Chairman of the Board

Clark J. Matthews, II
Co-Vice Chairman of the Board

Yoshitami Arai
Director

Masaaki Asakura
Director

Timothy Ashida
Director

Jay W. Chai
Director

Gary J. Fernandes
Director

Masaaki Kamata
Director

James W. Keyes
Director

Kazuo Otsuka
Director

Asher O. Pacholder
Director

Nobutake Sato
Director

Officers

James W. Keyes
President and CEO

Masaaki Asakura
Senior Vice President

Rodney A. Brehm
Senior Vice President,
Operations Development

Gary R. Rose
Senior Vice President,
Field Operations

Bryan F. Smith, Jr.
Senior Vice President,
General Counsel and Secretary

Donald E. Thomas
Vice President, Chief Accounting
Officer and Controller

Frank Crivello
Vice President, Northeast Division

Cynthia L. Davis
Vice President, Southwest Division

Michael J. Gade
Vice President, Merchandising

Frank S. Gambina
Vice President, Mid-Pacific Division

Jeffrey S. Hamill
Vice President, Foods/
Non-Foods Merchandising

John W. Harris
Vice President, Florida Division

David Huey
Vice President, North Pacific Division

Gary C. Lockhart
Vice President, Gasoline

David M. Podeschi
Vice President,
Demand Chain Management

Frank M. Quinn
Vice President, Mid-Atlantic Division

Stanley W. Reynolds*
Treasurer

Jeffrey A. Schenck
Vice President, Great Lakes Division

Nancy A. Smith
Vice President, Field Merchandising

Joseph M. Strong
Vice President, Chesapeake Division

Linda L. Svehlak
Vice President, Information Systems

Rick D. Updyke
Vice President, Business Development/
E-Commerce

*Effective January 27, 2001

Corporate Information

Corporate Headquarters

7-Eleven, Inc.
2711 North Haskell Avenue
Dallas, TX 75204-2906
(214) 828-7011

Mailing Address:
P.O. Box 711
Dallas, TX 75221-0711

Web Address: www.7-Eleven.com
e-mail: invest @7-11.com

Form 10-K and Other Investor Information

Requests for the Form 10-K for the year ended December 31, 2000, and quarterly financial information should be addressed to the Investor Relations department at the above address, or telephone (214) 828-7587.

Annual Reports are mailed to all shareholders of record. Additional information is available upon request or on the 7-Eleven Web site. A recorded Company update can be reached and requests for information can be left 24 hours a day by calling (214) 828-7587.

Annual Meeting

The annual meeting will be held at 9:30 a.m. CDT on Wednesday, April 25, 2001, in the Cityplace Conference Center at the Company's headquarters. All shareholders and bondholders are cordially invited to attend.

Auditors

PricewaterhouseCoopers LLP
Dallas, Texas

Common Stock

7-Eleven's common stock is traded on the New York Stock Exchange under the symbol SE. There were 2,385 shareholders of record as of March 2, 2001. Prior to July 7, 2000, the company traded on the Nasdaq under the symbol SVEV.

The Company pays no dividends on its common stock as such payments are restricted by the indentures governing its outstanding securities and by 7-Eleven's Credit Agreement with its senior lenders.

The company had a 1-for-5 reverse stock split that was effective on May 1, 2000. The table below adjusts for the reverse stock split and sets forth the high, low and closing market prices for the periods indicated.

Price Range: Quarters	High	Low	Close
2000			
First	21.25	8.13	18.75
Second	21.25	11.88	13.75
Third	15.63	12.00	12.75
Fourth	13.00	8.00	8.75
1999			
First	12.81	7.97	10.16
Second	13.75	9.06	11.09
Third	11.09	9.38	9.84
Fourth	10.63	7.97	8.91

Common Stock Transfer Agent/Registrar

Computershare Investor Services, LLC
2 North La Salle
Chicago, IL 60602
(312) 360-5464
(800) 926-1269

Other Securities

The following other 7-Eleven securities are traded over the counter, and price information is available by calling the company's recorded message at (214) 828-7587:

5% First Priority Senior Subordinated Debentures

Trustee: Chase Manhattan Trust, N.A.
Chase Financial Tower
250 W. Huron Road, Suite 220
Cleveland, Ohio 44113

4½% Second Priority Senior Subordinated Debentures
(Series A)

4% Second Priority Senior Subordinated Debentures
(Series B)

Trustee: The Bank of New York
101 Barclay Street, Floor 21 West
New York, NY 10286

7-Eleven Around the World

State/Province	7-Eleven Stores
United States	
Arizona	97
California	1,172
Colorado	238
Connecticut	51
Delaware	26
District of Columbia	19
Florida	523
Idaho	13
Illinois	156
Indiana	40
Kansas	15
Maine	23
Maryland	301
Massachusetts	102
Michigan	120
Missouri	81
Nevada	201
New Hampshire	20
New Jersey	211
New York	252
North Carolina	7
Ohio	15
Oregon	131
Pennsylvania	166
Rhode Island	11
Texas	294
Utah	112
Vermont	4
Virginia	612
Washington	215
West Virginia	23
Wisconsin	15
Total	5,266
Canada	
Alberta	136
British Columbia	153
Manitoba	49
Ontario	109
Saskatchewan	43
Total	5,756

United States	
Franchised	3,118
Company operated	2,148
Total	5,266
Canada	
Company operated	490
Total	5,756
Licensed or Operated by Affiliates	
Australia	247
China	50
Denmark	29
Guam (Micronesia)	8
Hong Kong – China	414
Japan	8,478
Malaysia	176
Mexico	295
Norway	54
Philippines	156
Puerto Rico	13
Singapore	124
South Korea	680
Spain	17
Sweden	49
Taiwan	2,641
Thailand	1,521
Turkey	13
United States	421
Total Licensing	15,386
Total Stores Worldwide	**21,142**

7-Eleven, Inc.

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